

2009

Financial Report
Corporate Governance

Preliminary Issue
as of February 26, 2010

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Corporate Governance – General Information

The Company's corporate governance principles are laid out in its articles of incorporation (**Articles**), the organizational rules (**Organizational Rules; Organisationsreglement**), charters of the different committees of the Board of Directors (**Board**), by-laws of the Company's executive management (**Executive Management**) adopted by the Board and a comprehensive set of group directives, including a Code of Conduct and insider trading rules that require a trading preclearance for the Board and the Company's officers and employees, as well as an internal control system (**ICS**), and a risk management process (**RM**).

The information published further below conforms to the Corporate Governance Directive (**DCG**) of the SIX Swiss Exchange (**SIX**). In order to avoid redundancies, references are inserted to other parts of the financial report and links to Santhera's website www.santhera.com that provide more detailed information.

Group Structure and Shareholders (DCG 1)

Group structure (DCG 1.1)

Listed company

Name	Santhera Pharmaceuticals Holding AG (Company , together with its affiliates, Santhera)
Domicile	Hammerstrasse 49, 4410 Liestal, Switzerland
Register number	CH-270.3.012.442-0
Listing	SIX Swiss Exchange
Symbol	SANN
Security ID	2714864
ISIN	CH0027148649
Market capitalization	CHF 92.6 million (December 30, 2009)
Website	www.santhera.com
Commercial register	www.hrabl.ch
Duration of company	Not limited
Subsidiaries	See following section as well as note "Investments/Subsidiaries" to the statutory financial statements of the Company on page F-48.

Santhera operates through its wholly owned subsidiaries, Santhera Pharmaceuticals (Schweiz) AG, Liestal (research and development [**R&D**] of pharmaceutical drugs), Santhera Pharmaceuticals (Canada), Inc., Montréal (marketing and sales [**M&S**] of pharmaceutical drugs), Santhera Pharmaceuticals (USA), Inc., Charlestown (M&S of pharmaceutical drugs), Santhera Pharmaceuticals (Deutschland) GmbH, Lörrach (regulatory and R&D in the EU) and Oy Santhera Pharmaceuticals (Finland) Ltd, Helsinki (administrative; DCG 1.1.3). None of these subsidiaries is listed on a stock exchange (DCG 1.1.2). Its R&D activities are managed by Santhera Pharmaceuticals (Schweiz) AG and are performed in Switzerland, the EU, Asia and the US (DCG 1.1.1).

Significant shareholders (DCG 1.2)

See note "Significant Shareholders" to the statutory financial statements of the Company on page F-51.

Cross-shareholdings (DCG 1.3)

There are no cross-shareholdings.

Capital Structure (DCG 2)

Ordinary, conditional and authorized capital (DCG 2.1/2.2)

The Company has one class of registered shares with a nominal value of CHF 1 each (**Shares**). Pursuant to its Articles, as at December 31, 2009, it had the following ordinary, authorized and conditional share capital:

Type of capital	Capital as per commercial register		Effective (listed) capital		Expiry	Section in Articles
	Amount in CHF ¹⁾	As percentage of ordinary capital	Amount in CHF ²⁾	As percentage of ordinary capital		
Ordinary capital	3,619,872	100.0	3,654,219	100.0	None	3
Authorized capital	323,945	8.9	323,945	8.9	April 20, 2010	3a
Conditional capital for warrants/option rights granted in connection with debt instruments ¹⁾	490,182	13.5	490,182	13.4	For conversion rights: 10 years from issue date For options: 7 years from issue date	3b I
Conditional capital for ESOP/EIP ²⁾	684,862	18.9	650,515	17.8	None	3b II

1) ESOP: Employee Stock Option Plans 2004 and 2008; EIP: Executive Incentive Plan; for details pertaining to the ESOP and option and/or conversion rights with regard to debt instruments, see section on DCG 2.7.

2) In the reporting period, certain holders of options exercised their rights to receive Shares which were issued from the Company's "Conditional Capital for ESOP". These 34,347 Shares, while conveying shareholders' rights, have only been registered in the commercial register on March 2, 2010. With regard to the disclosure of participations in accordance with article 20 of the Swiss Stock Exchange Act, the entry in the commercial register is relevant.

For details with regard to terms and conditions of potential issues under the Company's authorized and conditional share capital, see sections 3a and 3b of the Company's Articles, which can be downloaded from www.santhera.com/corporate-governance and section on DCG 2.7 below.

For details with regard to the Company's ESOPs and EIP see note 19 "Stock Option Plans" to the consolidated financial statements on pages F-26ff.

Changes in share capital (DCG 2.3)

For changes in capital that occurred in 2007 and 2008, see the Company's Annual Report 2008, which can be downloaded from www.santhera.com/reports. For changes that took place in 2009, see notes "Share Capital", "Authorized Share Capital", "Conditional Share Capital" to the statutory financial statements of the Company on pages F-48ff.

Shares, participation and dividend right certificates (DCG 2.4/2.5)

As of December 31, 2009, the Company had one single class of registered shares with a nominal value of CHF 1 each. All Shares were fully paid in and are nonassessable. The Company has not issued any participation certificates or any profit-sharing certificates.

The Company is permanently dispensed from the obligation to issue Shares or certificates evidencing Shares in physical form (*aufgehobener Titeldruck*). However, a registered shareholder may, at any time, request the Company to confirm its shareholding in written form.

Subject to section 5 in its Articles on share register, transfer restrictions and nominees, each Share carries one vote (see section on DCG 2.6) and is entitled to dividends if the shareholders' meeting (**Shareholders' Meeting**) resolves in favor of a dividend payment.

Limitations on transferability and nominee registrations (DCG 2.6)

The Company's Shares are freely transferable, provided that the acquirers declare that they acquired the Shares in their own name and for their own account. There is no percentage limitation (DCG 2.6.1), and consequently, the Company did not grant any exception (DCG 2.6.2).

The Board may register individual nominees (**Nominees**) with the right to vote in the share register up to 2% of the share capital as set forth in the commercial register. Shares in excess of 2% of the total share capital are entered without voting rights, unless the Nominee discloses the names, addresses and number of Shares of persons for whose account it holds such excess Shares. Nominees are persons who do not explicitly declare to hold Shares for their own account. Groups of persons who are interrelated or otherwise act in concert to circumvent the Nominee provisions are treated as a Nominee (DCG 2.6.3). In the year under review, the Company granted no exception.

The Board delegated the administration of the share register to the Chief Financial Officer (**CFO**) who may cancel registration of shareholders if such registration was based on false information and if the CFO has previously heard such shareholder or Nominee. No statutory privileges of limitations on transferability exist (DCG 2.6.4).

Convertible bonds and warrants/options (DCG 2.7)

Convertible loans

Santhera does not have any convertible or exchangeable bonds or loans outstanding.

Options, warrants

See the statutory financial statements of the Company on pages F-45ff and note 19 "Stock Option Plans" to the consolidated financial statements on pages F-26ff.

Board of Directors (DCG 3)

Board and committee memberships (DCG 3.1/3.2 and 3.4)

Name	Year of birth	Nationality	First elected	Elected until	Board	AC ¹⁾	FSTC ²⁾	NCC ³⁾
Michael Lytton	1957	US	2004	2010	●		●	●
Hans Peter Hasler	1956	CH	2006	2010	◐	○		
Jürg Ambühl	1949	CH	2009	2011	○	○		
Martin Gertsch	1965	CH	2006	2010	○	●		
Timothy Rink	1946	UK	2004	2012	○		○	○
Klaus Schollmeier	1957	DE	2007	2010	○			
Bernd Seizinger	1956	DE	2004	2010	○		○	○

1) Audit Committee

2) Financing Strategy & Transactions Committee

3) Nomination & Compensation Committee

● = Chairman

◐ = Vice Chairman

○ = Member

Michael Lytton, JD, MSc

Since February 2009, Michael Lytton has served as executive vice president, corporate and business development at Biogen Idec (Nasdaq: BIIB). From 2001 to February 2009, Mr Lytton served as a general partner at Oxford Bioscience Partners. Prior to joining Oxford Bioscience Partners, Mr Lytton was partner, chairman of the technology group and a member of the executive committee of Palmer & Dodge, a Boston-based law firm. Mr Lytton is also chairman of Medicines in Need, a non-profit organization focused on developing drugs and vaccines for the developing world. Mr Lytton is a graduate of Princeton University and a recipient of a Fulbright Scholarship for study at the University of London. Mr Lytton received a JD degree from Harvard Law School, Massachusetts, US. Mr Lytton also received an MSc degree in epidemiology and medical statistics from the London School of Hygiene and Tropical Medicine, London, UK.

Hans Peter Hasler

Hans Peter Hasler serves as executive chairman of the board of Eidetica Biopharma, a spin-off from Biogen Idec Inc. (Nasdaq: BIIB). Prior to that, Mr Hasler was chief operating officer of Biogen Idec and before that, executive vice president, global neurology and head of international, managing Biogen Idec's international business since 2003, as a senior vice president. Prior to the merger between Biogen and Idec he served as executive vice president, commercial operations of Biogen which he joined in 2001. Prior to that, Mr Hasler was senior vice president, chief marketing officer/head of global strategic marketing, a member of the Wyeth executive committee, chairman of the commercial council at Wyeth, managing director of Wyeth Group in Germany, general manager of Wyeth in Switzerland and general manager of Central Eastern Europe. Mr Hasler is also a member of the board of directors of Acino Holding Ltd (SIX: ACIN) and of HBM BioVentures Ltd (SIX: HBMN). Hans Peter Hasler holds a federal commercial diploma and a marketing manager certificate, SIB, Zurich.

Jürg Ambühl, PhD

Jürg Ambühl is a seasoned marketing specialist with a long track record in the pharmaceutical industry. At the end of 2009 Mr Ambühl retired from Ares Life Sciences (**Ares**), where he had been partner. He will provide limited consultancy services to Ares in 2010. From 2003 to 2007, he worked in several senior management positions for the Serono group, lastly as senior executive vice president global marketing. In this capacity, he was responsible for worldwide marketing strategies for all of Serono's products. Prior to that, he served as chief executive officer of Metagen Pharmaceuticals, a Berlin-based oncology spin-off of Schering. From 2000 to 2001, Mr Ambühl was president of the regional business Europe/International at Knoll/BASF Pharmaceuticals. From 1987 to 1999, he held several senior management positions within MSD Sharp & Dohme in Germany, lately as general manager with business responsibility for the German market. From 1982 to 1987, Mr Ambühl worked for McKinsey and prior to that, from 1978 to 1982 he held several management positions within Eli Lilly's German subsidiary in sales and marketing. He is member of the board of directors of Euromedic International and member of the board of advisors of Pilgrim Software. Mr Ambühl holds a PhD in chemistry from the Swiss Federal Institute of Technology, Zurich (ETH), and an MBA from the INSEAD, Fontainebleau, France.

Martin Gertsch

Martin Gertsch is chief financial officer of Delenex Therapeutics, a Zurich, Switzerland-based, privately held, new clinical stage biotechnology company. Until September 2009, he was chief financial officer of ESBAtech, a drug discovery and development company focusing on therapeutic applications of its proprietary antibody fragments. From 2002 to the beginning of 2006, he was chief financial officer of Straumann Group, where he joined in 1997 as head of group controlling and reporting. From 1986 to 1997 Mr Gertsch worked as audit engagement manager at PricewaterhouseCoopers, Basel, Switzerland. Mr Gertsch is a Swiss certified fiduciary and Swiss certified public accountant. He has also completed several executive-level development programs at IMD (International Institute for Management Development) in Lausanne, Switzerland.

Timothy Rink, MA, MD, ScD

Timothy Rink is chairman of the strategy panel (board of directors) of the Technology Transfer Division of the Wellcome Trust. Mr Rink has been a board member of a number of private and public US and UK biotechnology companies (Alanex, Akubio, Astex, BioVex, CIPHERGEN, CoCensys, Gryphon Sciences, Lorantis, NPS Pharmaceuticals, Sepracor, and Solexa). He was chairman and chief executive officer of Aurora Biosciences from 1996 to 1999. Mr Rink served as president and chief technical officer of Amylin Pharmaceuticals from 1990 to 1995 and presently serves on Amylin's scientific advisory board. He was vice president of research at SmithKline Beecham from 1984 to 1989. From 1976 to 1984 Mr Rink was a lecturer in physiology at the University of Cambridge, where he received his scientific and medical degrees.

Klaus Schollmeier, PhD

Klaus Schollmeier is Chief Executive Officer (**CEO**) of Santhera. Mr Schollmeier joined Graffinity Pharmaceuticals AG (**Graffinity**) as CEO in 2003 and became CEO of the Company when Graffinity and MyoContract AG (**MyoContract**) were combined to form Santhera in 2004. Prior to joining the biotechnology industry in 2003, he served as managing director of the healthcare/biotechnology group at ING-BHF Bank for ING Group Europe. Prior to that, he spent 16 years in the pharmaceutical industry at BASF, Knoll and Abbott. His scientific responsibilities included head of oncology/immunology research at BASF's central laboratories in Ludwigshafen, Germany, and senior director of biotechnology at BASF Bioresearch Corporation in Cambridge, Massachusetts, US (1989 to 1993). His business functions included general manager of BASF Pharma Netherlands from 1996 to 1998 and vice president and general manager for Western Europe thereafter. From 1994 to 1995 he led BASF's acquisition and integration of Boots Pharmaceuticals. Mr Schollmeier holds a PhD in biology from the University of Dusseldorf, Germany, and in 1991 he became an adjunct research associate professor at the Boston University Medical School, Massachusetts, US.

Bernd Seizinger, Prof, MD, PhD

Bernd Seizinger is an independent consultant. Until 2009, he was president and chief executive officer of GPC Biotech. Until 1998, he was executive vice president and chief scientific officer of Genome Therapeutics in Waltham/Boston, Massachusetts, US. Previously, Mr Seizinger held the posts of vice president of oncology and vice president of corporate and academic alliances at Bristol-Myers Squibb Pharmaceutical Research Institute in Princeton, New Jersey, US. Mr Seizinger was formerly associate professor of neuroscience at Harvard Medical School, Massachusetts, US, director of the Molecular Neuro-Oncology Laboratory at Massachusetts General Hospital, Massachusetts, US, and held a visiting professorship at the department of Molecular Biology at Princeton University, New Jersey, US. He was awarded his MD from the Ludwig Maximilians University and his PhD from the Max Planck Institute of Psychiatry, both in Munich, Germany. He is the recipient of numerous scientific awards and has authored over 100 publications. Bernd Seizinger is also a member of the board of BioXell (SIX: BXLN), of Agennix and chairman of the board of Opsona Therapeutics.

Independence of Board members (DCG 3.1.b and c)

With the exception of Klaus Schollmeier, who is CEO of the Company, all Board members are non-executive and none has ever been a member of the Executive Management of the Company or any of its subsidiaries.

Business connections between Board members and the Company (DCG 3.1.c)

See note 29 "Related Party Transactions" to the consolidated financial statements on pages F-34ff.

Other activities and vested interests (DCG 3.2)

Other than described above, none of the members of the Board has any position in governing or supervisory bodies of any major organization, institution or foundation under private or public law, permanent management or consultancy function for major interest groups, official function or political mandate.

Elections and terms of office (DCG 3.4)

According to the Company's Articles, the Board consists of no more than eight members. The term of office of a Board member must not exceed three years, whereby a year means the period between two ordinary Shareholders' Meetings. Directors are appointed or removed exclusively by a resolution of the shareholders. For the time of the first election and the remaining term of office for the members of the Board see the table in the section on DCG 3.1/3.2 and 3.4 above. The terms of the Board members are staggered (five Board members are elected until 2010, one until 2011 and one until 2012). The Board members were elected individually.

Organizational structure/areas of responsibility and information flow (DCG 3.5)

See also the table in the section on DCG 3.1.

Allocation of tasks within the Board (DCG 3.5.1)

In accordance with the Organizational Rules of the Company, the Chairman convenes and presides over the Board meetings. After consultation with the Executive Management, he decides on agenda items and motions. Other Board members may request that items be placed on the agenda. In case of urgency, the Chairman may approve transactions and measures on behalf of the full Board. He also approves the Company's news releases. In the Chairman's absence, the Vice Chairman represents him.

The Board committees (DCG 3.5.2)

The Board has three standing Board committees, the Audit Committee (**AC**), the Financing Strategy & Transactions Committee (**FSTC**) and the Nomination & Compensation Committee (**NCC**). Committee memberships are indicated in the table on page CG-4.

Audit Committee

The AC supports the Board in exercising its responsibilities in monitoring the integrity of the financial statements of the Company, the independent public accounting firm's qualifications and independence, the performance of the Company's internal audit function and independent public accountants, and the compliance of the Company with legal and regulatory requirements. The AC reviews the Company's financial statements, budgets and financial plans on a quarterly basis. It assesses the Company's ICS and is responsible for the Company's RM and the assessment of the semi-annual risk reports of the Executive Management. It communicates with the Company's external auditors concerning the results of their audits of the annual and interim accounts and to discuss important or critical accounting topics.

Upon its reviews, the AC issues a recommendation to the Company's Board regarding the approval of the Company's annual and interim financial statements as well as its quarterly latest estimates and forecasts for the running and next business year, once yearly its budgets, outlooks as well as its longterm financial plans and its risk report. It also approves the annual budgets for all engagements of the Company's auditors.

In addition, in the year under review, the AC focused on the restructuring of some of Santhera's operations that became necessary as a consequence of the IONIA study results, the further development

of the Company's internal control and risk management systems, in particular its entity and process level controls related to certain financial key processes and IT general controls (ITGC). It discussed specific accounting matters related to IFRS in connection with revenue recognition and share-based payment plan modifications. For additional information, see "Nomination & Compensation Committee" and note "Stock Option Plans" of the consolidated financial statements on page CG-8 and F-26, as well as impacts on statutory and consolidated accounts of certain corporate development matters such as the acquisition and integration of Oy Juvantia Pharma Ltd with the auditors and the Executive Management.

Financing Strategy & Transactions Committee

The FSTC supports the Board in its responsibilities for the financial management and corporate finance activities of the Company and reviews the financing policies, plans and structure of the Company. The duties of the FSTC include reviewing and making recommendations, when appropriate, to the Board with respect to matters such as financing strategy, adjustments of the Company's capital structure, debt and equity placement programs, proposed licensing transactions, mergers, acquisitions, divestitures and insurance. As such, it usually only has advisory duties.

In the year under review, it was involved in the assessment of some potential business development projects including the licensing agreement with Biovail. In 2009, the FSTC held no formal meetings, but discussed such business development projects in teleconferences as well as in e-mails.

Nomination & Compensation Committee

The NCC assists the Board in compensation- and nomination-related matters. It provides recommendations on the policies for the compensation of the members of management and other employees. It approves the Company's stock option plans and grants on a total Company basis and to Executive Management on an individual basis, and the compensation of each member of the Executive Management. It also approves salary increases, bonus payments and option pools granted to senior managers and employees on an aggregate basis. It approves promotions of employees who are or will become direct reports of a member of the Executive Management. Further, it establishes principles for the selection of candidates for election to the Board and the Executive Management, reviews and proposes candidates for membership on the Company's Board and Executive Management, and reviews the Company's regulations and charter to remain in compliance with SIX requirements and Swiss and international corporate best practice standards.

Both Board and NCC deliberate over the corporate goals and the amount of incentives to be paid upon achievement of the targets as well as employment packages for senior managers and overall stock option grants to the employees. In the year under review, the NCC set the target achievement level with regard to the corporate scorecard for 2009, approved the group's social plan in connection with the restructuring, decided on a general salary increase of 2%. The NCC determined that based on the overall Company performance, no incentive payments would be made. In order to be able to retain its employees, the NCC approved a special retention package that consists of a deferred and contingent cash payment and option related measures. For additional information, see section on DCG 5.

Board - elections and areas of responsibility (DCG 3.5/3.6)

The Board is entrusted with the ultimate direction of the Company and supervision of the Executive Management. The Board's nontransferable and inalienable duties include the duty to (i) ultimately manage the Company and issue the necessary directives, (ii) determine the organizational structure of the Company, (iii) organize the accounting system, financial control (including

the Company's ICS, RM as well as financial planning, and (iv) appoint, recall and ultimately supervise the persons entrusted with the management and representation of the Company. The non-transferable and inalienable duties also comprise responsibility for preparation of the Annual Report and the Shareholders' Meeting, carrying out shareholders' resolutions and notification to the judge in case of overindebtedness of the Company. The full Board approves the Company's budget and major contracts if they are not within budget. It also reviews filing strategies before regulatory authorities such as the European Medicines Agency (**EMEA**) and the US Food and Drug Administration (**FDA**). It reviews and approves merger and acquisitions (**M&A**) projects including licensing transactions of a considerable size.

In the reporting period, the tasks of the Board and its committees were primarily focused on the evaluation of the Company's results of its IONIA and FJORD studies and related strategic implications, the partnering of its compound fipamezole to Biovail, the related acquisition of Ory Juvantia Pharma Ltd, the group's restructuring of certain operational activities and the evaluation of business development projects.

The Board has delegated the execution of the strategies defined by it and the day-to-day management of the Company to the Executive Management.

Scientific Advisory Board (SAB)

In addition to the Board, a corporate body required by law, the Company has an SAB. The SAB provides additional research and development expertise relevant to Santhera's business on an ad hoc basis. Members of the SAB meet as necessary with the scientific and development personnel as well as with members of the Executive Management to discuss and advise Santhera's present and long-term R&D activities. Members of the SAB do not advise the Board nor do they have any decision-making power. For the curriculum vitae of the SAB members, see the Company's website www.santhera.com/sab.

Work methods of the Board (DCG 3.5.3)

The adoption of resolutions and elections by the Board require a majority of the votes cast. To validly pass a resolution, more than half of the members of the Board must be present at the meeting. Meetings may be held by telephone.

Meetings in 2009

The Board and its committees met as follows:

Corporate body	Number of meetings*	Duration
Board	14	The longest meeting lasted 5 hours, the shortest 15 minutes. On average, the duration of the meetings was 2½ hours.
AC	5	The longest meeting lasted more than 3 hours, the shortest somewhat less than 2 hours. On average, the duration of the meetings of the AC was about 2½ hours. All meetings were held in person.
FSTC	0	For explanations, see page CG-8.
NCC	5	The longest meeting lasted about 2 hours, the shortest 15 minutes. On average, the duration of the meetings of the NCC was somewhat more than 1 hour.

* Including meetings held by teleconference.

Information and control instruments vis-à-vis the Executive Management (DCG 3.7)

As a rule, all Executive Management members and the Board's secretary, who is also the Company's general counsel, participate in all Board meetings and report to the Board on the current course of business and all significant issues and transactions. Usually, other members of senior management are invited for certain agenda items in their area of expertise, for example, to discuss results and progress of the clinical studies, submissions to regulatory authorities, potential new indications and additional fields of activities, in- and out-licensing projects and M&S strategies. As the Board meetings are usually held at the Company's offices in Liestal, Board members frequently also take the opportunity to talk to employees before and after the meetings to obtain a more profound understanding of the Company's business and processes. Usually, the CEO and CFO, the general counsel and the senior managers responsible for accounting/reporting, controlling, financial planning, risk management and treasury, participate in the AC's meetings. From time to time, the AC also invites the Company's auditors and tax advisors to its meetings. The CEO and the Director Human Resources usually attend the meetings of the NCC. From time to time, the NCC also invites special advisors in the field of compensation and compensation policies to attend its meetings. Usually, all members of Executive Management attend the FSTC meetings.

Extraordinary transactions and issues must be reported by the CEO to the Board immediately. The CEO is in regular contact with the Chairman. Important news in 2009 included the results of the Company's IONIA and FJORD studies, the acquisition of Juvantia and the partnering of fipamezole. Each member of the Board is entitled to request and receive information on all matters of the Company and has access to the Company's and the Company's subsidiaries' property, records and personnel.

Due to its size, Santhera does not currently have an internal audit function, but parts of this function have been allocated to the financial controller and a quality assurance manager in the regulatory area.

Executive Management (DCG 4)

The Executive Management, under the responsibility of the CEO and the control of the Board, conducts the operational management of the Company pursuant to the Articles, the Organizational Rules and the by-laws for Executive Management.

During the Board and Board Committee meetings the Executive Management reports to the Board as well as whenever required on an ad hoc basis. The members of the Executive Management are appointed by the Board upon proposal by the CEO.

The Executive Management is responsible for implementation of the decisions taken by the Board and its committees. It prepares the business strategy and business plan for decision by the Board. In accordance with the Group Directive "Competencies & Responsibilities", the Executive Management approves material contracts. It also allocates financial, personnel and other resources within Santhera and supervises senior management. The Executive Management meets biweekly together with other senior managers for about four hours and otherwise as often as required. The biweekly meetings follow a strict agenda and usually cover the following topics: product revenues, development programs, design and results of clinical studies, regulatory strategies, resource allocation, M&S, business development, competitive situation, RM & ICS, corporate affairs including important contracts, supply chain and information on subsidiaries, financing situation and strategies, internal and external financial reporting, financial controlling, public and investor relations, human resources and taxes, legal and compliance.

Members of the Executive Management (DCG 4.1)

Name	Year of birth	Nationality	Position
Klaus Schollmeier	1957	DE	Chief Executive Officer
Barbara Heller	1967	CH	Chief Financial Officer
Thomas Meier	1962	DE	Chief Scientific Officer
Helmut Kessmann	1960	DE	Chief Business Officer

Klaus Schollmeier, PhD

See biographical details on page CG-6 of this report.

Barbara Heller, MBA (lic oec publ)

Barbara Heller joined Santhera as CFO in 2005. Prior to that, she was at Bank Vontobel, an independent Swiss private banking and investment banking group, as a member of the senior management team. She joined Vontobel in 1997 and held several positions in investment banking/corporate finance. In 1991, she started her professional career in international corporate banking and capital markets at Bank Leu, today ClaridenLeu, a member of the Credit Suisse Group, where she held several senior management positions and was promoted to head of corporate finance/financial engineering. Ms Heller received a master's degree from the University of Zurich, Switzerland, in economics and business administration with an emphasis on corporate finance and empirical research in economics in 1991, and is a graduate of the Executive Program of the Swiss Finance Institute. Ms Heller is a teaching faculty member of ECLE European Course for Life Sciences Executives of the European Center of Pharmaceutical Medicine of the University of Basel since 2006.

Thomas Meier, PhD

Thomas Meier, Chief Scientific Officer (**CSO**), was founder and former CEO of MyoContract prior to the business combination with Graffinity that led to Santhera. In 1999, Mr Meier became an independent research group leader and lecturer in the Department of Pharmacology and Neurobiology at the Biozentrum of the University of Basel, Switzerland, where he established MyoContract. Mr Meier received his PhD in biology from the University of Basel, Switzerland, in 1992 and subsequently joined the University of Colorado Health Sciences Center, USA. He has a distinguished scientific track record and is author of several papers in the field of neuromuscular research. Mr Meier won the International Research Fellowship Award from the US National Institutes of Health, the BioValley Basel Award 2007 and has received a long-term fellowship from the Human Frontier Science Foundation.

Helmut Kessmann, PhD

Helmut Kessmann, Chief Business Officer (**CBO**), joined Graffinity in 2001 as CBO, and since the combination with MyoContract, he has continued in that role for the Company. In 1996, Mr Kessmann cofounded Discovery Technologies, a biotechnology company in Basel, Switzerland, which was integrated into US-based Discovery Partners International in 1999 which had a successful IPO in 2000 (merged 2006 with Infinity Pharmaceuticals). Prior to that, following a postdoctorate in the US, he held various research management positions at Ciba-Geigy, now Novartis. Mr Kessmann studied biology, philosophy and business administration and completed his doctorate in biochemistry 1988 at the University of Münster, Germany.

Other activities and vested interests (DCG 4.2)

With the exception of Klaus Schollmeier, who is also a member of the Board of Santhera, none of the Executive Management members has any position in governing or supervisory bodies of any major organization, institution or foundation under private or public law, permanent management or consultancy function for major interest groups, official function or political post.

Management contracts (DCG 4.3)

There are no management contracts between the Company and companies not belonging to Santhera.

Compensation, Shareholdings and Loans (DCG 5)**Content and method of determining compensation and share ownership programs****(DCG 5.1)**

The remuneration of the members of the Board and the total compensation of the members of the Executive Management are established according to a guideline based on an analysis of compensation paid within selected peer companies. Regularly, benchmark studies are conducted by an external consultant, who is awarded no additional mandates, for review and discussion by the NCC. By combining short- and long-term incentive elements, the compensation system is designed in a way that the interests of Executive Management are aligned with the interests of the Company and its shareholders. Compensation is reviewed and fixed annually. The Company's compensation system does not set any unintended enticements or contain any components that could be counterproductive to the objectives of the compensation system. Employment contracts with members of the Executive Management do not contain unusually long notice periods or contract durations. There are no agreements on severance in case of change of control in place, with the exception of those set out below in the section on DCG 7.2.

As of the Annual Shareholders' Meeting on April 27, 2009 Rudolf Gygax did not stand for re-election as member of the Board. As per Santhera's stock option plans all of Mr Gygax' unvested options, at that point equalling 100% of all his 4,000 stock options, would automatically have been forfeited. However, in recognition of Mr Gygax' longterm valuable services as Board member of Santhera and its predecessor company MyoContract, and since Mr Gygax had not been allocated any additional stock options in the past, the NCC decided on an accelerated vesting of 50% of the unvested portion of his stock options as of May 7, 2009 and that the exercise period would be five years from their grant date. Other than this, in 2009, the Company has not entered into any agreements on severance pay or end of service agreements with Board members or members of the executive management. While the corporate goals for the year under review are determined by the Board, their achievement level and the impact of such achievement on the compensation is discussed in and determined by the NCC.

The nonexecutive members of the Board are compensated by means of a fixed Board fee which is payable in cash. In addition, Board members are granted stock options. There is no variable pay element in the compensation of the nonexecutive members of the Board.

The executive member of the Board as such is not entitled to additional remuneration besides his compensation as CEO of the Company.

The compensation system for the members of Executive Management consists of both fixed and variable elements. The fixed salaries are established according to a comparative analysis of base salaries paid within selected peer groups of international companies. The variable elements consist of cash pay and – at the full discretion of the NCC – stock options. The variable cash element may amount up to 50% of the base salary for the CEO and up to 30% for the other members of the Executive Management. The incentive payment is a one-time reward for the annual performance against the corporate goals which are set at the beginning of the year. The option element is designed as a long-term incentive to stay with the Company.

The corporate goals reflect the Company's development stage and include the achievement of milestones in clinical development (study results, study progress, site initiation, enrollment rates, success of regulatory submissions), in business development, the maintenance of corporate governance standards as well as other value creating performance indicators.

For additional information, see note "Compensations to the Board and the Executive Management" of the statutory financial statements on page F-51.

Transparency of compensation for, shareholdings of and loans to issuers domiciled abroad (DCG 5.2)

Not applicable, as the Company is domiciled in Switzerland.

Shareholders' Participation (DCG 6)

Voting rights and representation restrictions (DCG 6.1)

There are no voting rights restrictions, no statutory group clauses and hence no rules on making exceptions. As a consequence, there is neither a procedure nor a condition for their cancellation. A shareholder may be represented by his legal representative, the corporate proxy, the independent proxy, by a depositary or by another shareholder.

Statutory quora (DCG 6.2)

There are no statutory quora which differ from the applicable legal provisions.

Convocation of the Shareholders' Meeting (DCG 6.3)

There are no statutory rules on the convocation of the Shareholders' Meeting that differ from the applicable legal provisions.

Agenda rules (DCG 6.4)

The Board decides on the agenda of the Shareholders' Meeting. Shareholders with voting rights whose combined holdings represent Shares with a nominal value of at least CHF 1 million or 10% of the Company's share capital may, up to 60 days before the date of the meeting, demand that items be included in the agenda. Such request must be in writing and must specify the items and the motions to be submitted.

Registrations in the share register (DCG 6.5)

Shareholders entered in the share register as shareholders on a specific qualifying day designated by the Board (record date), which is usually less than five business days before the meeting, are entitled to attend the Shareholders' Meeting and to exercise their votes at such meeting.

Changes of Control and Defense Measures (DCG 7)

Duty to make an offer (DCG 7.1)

There are no statutory rules on "opting up" or "opting out". Should a shareholder reach the threshold of 33 $\frac{1}{3}$ % of all the Company's voting rights, then, pursuant to the Swiss Stock Exchange Act, it would be required to submit a public takeover offer for all outstanding Shares.

Clauses on changes of control (DCG 7.2)

The Employee Stock Option Plans 2004 and 2008 (ESOP), under which most options to receive Shares have been granted (e.g. with the exception of those under the EIP) contain clauses according to which all options granted under the ESOP vest immediately upon a sale of more than 50% of the Shares. Other than that, as of December 31, 2009, agreements and plans from which members of the Board and/or the Executive Management or other members of senior management benefit or may benefit contain no clauses on changes of control.

Auditors (DCG 8)

Duration of the mandate and term of office of the lead auditor (DCG 8.1)

Ernst & Young, Basel, assumed the existing auditing engagement for Santhera's predecessor company MyoContract in 2002. The Shareholders' Meeting elects the Company's auditors for a term of office of one year. The auditor in charge is Mr Jürg Zürcher. He assumed his responsibility in 2006.

Auditing fees and additional fees (DCG 8.2/8.3)

The following fees were charged for professional services rendered by Ernst & Young, for the twelve-month period ended December 31:

	in CHF thousands	2009	2008
Audit services		272	253
Audit-related services		62	37

Audit services are defined as the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements of Santhera and to issue reports on the local statutory financial statements. It also includes services that can only be provided by the group auditor and includes the verification of the implementation of new or revised accounting policies and from reporting periods 2007 onwards the audit of the ICS and RM. Audit-related services include those other services provided by auditors but not restricted to those that can only be provided by the auditor signing the audit report. They comprise amounts for services in relation to general accounting matters. For reasons of good corporate governance, Santhera contracted the provision of tax and ICS/RM services to a company other than Ernst & Young.

Supervisory and control instruments pertaining to the audit (DCG 8.4)

The Board performs its supervisory and control functions towards the external auditors through the AC. In particular, the AC meets with the auditors at the end of the audit to discuss in depth the audit procedure, any findings made and recommendations proposed. The management letter is also extensively discussed. The primary objective of the AC is to support the Board in monitoring Santhera's ICS, accounting principles, RM, financial reporting and auditing.

Information Policy (DCG 9)

Santhera reports to its shareholders, employees, business partners and other public stakeholders in an open, transparent and timely manner. Equal treatment of all stakeholders is the guiding principle behind its partnership-based approach. In doing so, Santhera is able to promote an understanding of its objectives, strategy and business activities, and to ensure an increasing degree of awareness about Santhera. The Company has adopted a comprehensive disclosure policy to protect Santhera's interests and assets, to release material information in a timely and controlled manner, to observe the legal requirements and rules and in particular to also distinguish competencies and responsibilities of corporate and strategic disclosure and those applicable in M&S or R&D.

The most important information tools are news releases, the Annual Reports and Interim Reports, the website www.santhera.com, fact sheets, as well as the Shareholders' Meeting and the R&D day.

Investors and other parties interested in subscribing to the Company's news service may do so by registering themselves on www.santhera.com/subscription.

For contact details, see reverse side of the 2009 Annual Report.

Corporate events (see also www.santhera.com/events)

- Annual Shareholders' Meeting April 26, 2010, Basel
- Interim Report for the first half of 2010 September 3, 2010

Investor-related as well as scientific and partnering-events are regularly updated on www.santhera.com/calendar.

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Consolidated Balance Sheet

	as of December 31, in CHF thousands	Notes	2009	2008
Assets				
Tangible assets		5	3,009	1,481
Intangible assets		6	33,762	30,150
Deferred tax assets		13	43	0
Financial assets long-term		10	10	10
Noncurrent assets			36,824	31,641
Prepaid expenses and accrued income			239	774
Inventories		8	3,277	4,062
Trade and other receivables		9	1,041	1,464
Cash and cash equivalents		11	53,320	75,006
Current assets			57,877	81,306
Total assets			94,701	112,947
		Notes	2009	2008
Equity and liabilities				
Share capital		12	3,654	3,514
Capital reserves and share premium			270,467	265,590
Retained earnings			-189,011	-163,088
Other components of equity			-1,598	-1,542
Total equity			83,512	104,474
Long-term finance lease liabilities		10	2,273	0
Pension liabilities		25	381	263
Total noncurrent liabilities			2,654	263
Trade and other payables		14	3,610	2,265
Financial liabilities short-term		10	31	256
Accrued expenses		15	4,336	5,539
Short-term provisions		16	558	150
Total current liabilities			8,535	8,210
Total liabilities			11,189	8,473
Total equity and liabilities			94,701	112,947

F-3 Consolidated Income Statement

	for the year ended December 31, in CHF thousands	Notes	2009	2008
Net sales		20, 21	1,643	48
Cost of goods sold		21	-244	-23
Other revenue		20, 21	20,696	0
Gross profit			22,095	25
Other operating income		22	554	26
Research and development		23, 24	-31,536	-31,467
Marketing and sales		23, 24	-3,752	-3,484
General and administrative		23, 24	-13,206	-10,624
Other operating expenses		23, 24	-50	-67
Operating expenses		23, 24	-48,544	-45,642
Operating result			-25,895	-45,591
Financial income		26	3,643	5,753
Financial expenses		26	-3,604	-4,939
Result before taxes			-25,856	-44,777
Income taxes		27	-67	121
Net loss			-25,923	-44,656
Basic and diluted loss per share (in CHF)			-7.31	-14.11

Consolidated Statement of Comprehensive Income

	for the year ended December 31, in CHF thousands	Notes	2009	2008
Net loss			-25,923	-44,656
Currency translation differences			-56	-3,074
Other comprehensive loss			-56	-3,074
Total comprehensive loss			-25,979	-47,730

Consolidated Cash Flow Statement

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	for the year ended December 31, in CHF thousands	Notes	2009	2008
Result before taxes			-25,856	-44,777
Depreciation of tangible assets		5	1,009	629
Amortization of intangible assets		6	288	137
Issuance of share options		19	1,830	1,680
Net change in fair value of derivatives		10	-256	227
Change in pension liabilities		25	118	-8
Change in short-term provisions		16	412	-177
Change in deferred tax liabilities		13	-43	0
Tax expenses		27	-67	121
Change in net working capital			1,435	-4,461
Total financial result (excl. net change in fair value of derivatives)			217	-1,041
Interest received		26	236	2,021
Interest paid		26	-76	-42
Cash flow from operating activities			-20,753	-45,691
Investments in tangible assets		5	-224	-746
Investments in intangible assets		6	-765	-145
Change in other financial assets		10	0	98
Cash flow from investing activities			-989	-793
Capital increases		12	34	15,010
Amortization of finance lease		10	-10	0
Cash flow from financing activities			24	15,010
Effects of exchange rate changes on cash and cash equivalents			32	-138
Net increase/(decrease) in cash and cash equivalents			-21,686	-31,612
Cash and cash equivalents at January 1			75,006	106,618
Cash and cash equivalents at December 31			53,320	75,006

Consolidated Statement of Changes in Equity

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	in CHF thousands	Notes	Share capital	Capital reserves and share premium	Retained earnings	Translation differences	Total
Balance at January 1, 2008			3,119	249,295	-118,432	1,532	135,514
Net loss			0	0	-44,656	0	-44,656
Other comprehensive income/loss			0	0	0	-3,074	-3,074
Total comprehensive loss for the period			0	0	-44,656	-3,074	-47,730
Issuance of share options		19	0	1,680	0	0	1,680
Capital increase from warrant exercise		12	10	0	0	0	10
Capital increase from option exercise		12	15	9	0	0	24
Capital increase November 2008		12	370	15,543	0	0	15,913
Cost of issuance of share capital			0	-937	0	0	-937
Balance at December 31, 2008			3,514	265,590	-163,088	-1,542	104,474
Balance at January 1, 2009			3,514	265,590	-163,088	-1,542	104,474
Net loss			0	0	-25,923	0	-25,923
Other comprehensive income/loss			0	0	0	-56	-56
Total comprehensive loss for the period			0	0	-25,923	-56	-25,979
Issuance of share options		19	0	1,830	0	0	1,830
Capital increase from option exercise		12	34	0	0	0	34
Capital increase September 2009		12	106	3,047	0	0	3,153
Balance at December 31, 2009			3,654	270,467	-189,011	-1,598	83,512

1 General Information

Santhera Pharmaceuticals Holding AG (the **Company** together with its subsidiaries **Santhera or Group**) is a specialty pharmaceutical company focused on the discovery, development and commercialization of innovative pharmaceutical products for the treatment of severe neuromuscular diseases, seeking to address the high unmet medical need associated with most neuromuscular diseases where few, if any, effective therapies currently exist. Santhera's vision is to become a global market leader in the treatment of neuromuscular diseases, which frequently qualify for orphan drug status.

The Company, having its primary listing of its registered shares (**Shares**) on the SIX Swiss Exchange (**SIX**), is a Swiss stock corporation and the parent company of the Group. Its purpose is to acquire, dispose and manage investments. The Company has its registered offices at Hammerstrasse 49 in 4410 Liestal, Switzerland.

The consolidated financial statements were approved for publication by the Board of Directors (**Board**) on February 25, 2010. They are subject to approval by the Annual Shareholders' Meeting on April 26, 2010.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Santhera have been prepared in accordance with International Financial Reporting Standards (**IFRS**).

The consolidated financial statements are based on the financial statements of the individual Santhera companies prepared for the same reporting period using consistent accounting policies. The consolidated financial statements are prepared using the historical cost convention except for the revaluation to fair value of certain financial assets and financial liabilities.

The presentation currency is Swiss Francs (**CHF**). All figures included in these financial statements and notes to the financial statements are rounded to the nearest CHF 1,000 except where otherwise indicated.

Consolidation

Subsidiaries in which the Company has a direct or indirect controlling interest are consolidated. Control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights or potential voting rights of a company's share capital that are currently exercisable.

The consolidated financial statements of Santhera include the accounts of Santhera Pharmaceuticals Holding AG, Liestal, Switzerland, and its wholly owned subsidiaries Santhera Pharmaceuticals (Schweiz) AG, Liestal, Switzerland, Santhera Pharmaceuticals (USA), Inc., Charlestown, USA, Santhera Pharmaceuticals (Canada), Inc., Montréal, Canada, Santhera Pharmaceuticals (Deutschland) GmbH, Lörrach, Germany and Oy Santhera Pharmaceuticals (Finland) Ltd (formerly Leucoson Oy), Helsinki, Finland.

The purchase method is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement. The Group had no business combinations in the periods reported.

The consolidation commences from the date on which control is transferred to the Company, and subsidiaries are no longer consolidated from the date that control ceases. Intercompany balances and transactions between Group companies are eliminated. Intercompany transactions solely result from providing services and selling goods to other Group companies.

Changes in accounting policies

The accounting policies which were adopted are consistent with those of the previous year, except for those described below. Santhera has adopted the following new, amended and/or revised standards and interpretations in 2009:

The adoption of the following standards did have an effect on the disclosure in these financial statements:

IFRS 8	Operating Segments: Replaces IAS 14 and requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments (see note 20 "Segment and Geographic Information").
IAS 1 (revised)	Presentation of Financial Statements: The revised standard requires that gains and losses recognized outside profit and loss are presented separately from the "Consolidated Statement of Changes in Equity" in the "Consolidated Statement of Comprehensive Income".

The adoption of the following amendments to existing standards did have an effect on accounting policies but did not have an impact on reported amounts or disclosures in these financial statements:

IFRS 2	Share-based Payment
IFRS 7	Financial Instruments: Disclosures
IAS 23	Borrowing Costs

The adoption of the following standards and interpretations did neither have an effect on the disclosure in these financial statements nor on currently relevant accounting policies:

IAS 32 and IAS 1	Financial Instruments: Presentation and Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
IFRIC 9	Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 13	Customer Loyalty Programs
IFRIC 15	Agreements for Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers

IFRS additionally issued a number of improvements to its standards in order to eliminate inconsistencies and clarify some wording. The adoption of these improvements did not result in impacts on the financial position nor on the accounting policies.

The following relevant, new or revised/amended standards and interpretations will be adopted when becoming effective:

IFRS 3	Business Combinations: revised. Effective for annual periods beginning on or after July 1, 2009. No impacts are expected on the Group's accounts under the current group structure.
IFRS 9	Financial Instruments: new. Effective for annual periods beginning on or after January 1, 2013. No material impacts are expected on the Group's accounts.
IAS 24	Related Party Disclosures: amendment. Effective for annual periods beginning on or after January 1, 2011. No material impacts are expected on the Group's accounts.
IAS 27	Consolidated and Separate Financial Statements: revised. Effective for annual periods beginning on or after July 1, 2009. No material impacts are expected on the Group's accounts under the current set-up.
IAS 32	Classification of Rights Issues: amendment. Effective for annual periods on or after February 1, 2010. No impacts are expected on the Group's accounts.
IAS 39	Financial Instruments: Recognition and Measurement: amended. Effective for annual periods beginning on or after July 1, 2009. No material impacts are expected on the Group's accounts.
IFRIC 17	Distributions of Non-cash Assets to Owners: Effective for annual periods beginning on or after July 1, 2009. No impacts are expected on the Group's accounts as no such cash assets were distributed to owners in the past.

Future changes in IFRS: IFRS are undergoing a process of revision with a view to increasing harmonization of accounting rules internationally. Proposals to issue new or revised standards, as yet unpublished, may change existing standards, and may therefore affect the accounting policies applied by Santhera in future periods. Transition rules for these potential future changes may require Santhera to apply them retrospectively to periods before the date of adoption of the new standards.

Segment reporting

Santhera has one operating segment, namely the discovery, development and commercialization of small-molecule pharmaceutical products for the treatment of severe neuromuscular diseases. The Board, the Executive Management and the Management Team, being the Chief Operating Decision Makers (**CODM**), assess the reporting data and allocate resources as one segment on an aggregated consolidated level according operating expenses by function. Santhera generates revenue from sales of Catena® for the treatment of Friedreich's Ataxia (**FA**). Geographic revenue information is based on location of the customer.

Foreign currency translations

The consolidated financial statements are presented in CHF. The functional currency of each Santhera company is the currency of the primary economic environment in which the local entity operates. Transactions in foreign currencies are accounted for at the rates prevailing at the dates of the transaction. Translation differences from financial transactions are included in the financial result.

Gains and losses resulting from the translation of foreign currency transactions and from the adjustment of foreign currency monetary assets and liabilities at the balance-sheet date are recognized in the income statement.

Assets and liabilities of foreign entities are translated into CHF using the balance sheet exchange rates at year-end. Income and expenses are translated into CHF at average exchange rates. The exchange differences arising on the retranslation are accounted for in other comprehensive income/equity.

Intangible assets

Patents, licenses, trademarks and other intangible assets are capitalized as intangible assets when it is probable that future economic benefits will be generated. Such assets are in general amortized on a straight-line basis over their useful lives. Estimated useful life is the lower of legal duration and economic useful life. The estimated useful life of the intangible assets is regularly reviewed, and if necessary, the future amortization charge is accelerated. For pharmaceutical products, the estimated useful life normally corresponds to the remaining lifetime of their patent or orphan drug protection (up to 20 years).

Goodwill

Currently no goodwill is capitalized.

Trademarks and licenses

Currently no trademarks or licenses are capitalized.

IT software

Acquired IT software licenses are capitalized on the basis of the costs incurred to acquire and implement the specific software. These costs are amortized on a straight-line basis over their estimated useful lives (two to five years).

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset or the shorter lease term, as follows:

	Useful life
Laboratory equipment	5 to 8 years
Laboratory fixtures and fittings	5 to 10 years
Equipment	4 to 10 years
Equipment for clinical studies	1 to 2 years
IT hardware	2 to 5 years
Leasehold improvements	3 to 30 years

Impairment of assets

Assets include intangible assets not yet available for use, intangible assets with finite useful lives and tangible assets. In general and in accordance with the terms of IFRS, assets not in use are capitalized at cost in the balance sheet and reviewed for impairment at least annually. This impairment test is performed at the same time every year or upon any balance sheet date if deemed necessary. A change to finite useful life is accounted for as a change in an accounting estimate for the respective asset; testing for indicators of impairment is done at the end of each reporting period.

Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are capitalized. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Trade and other receivables

Receivables which generally have 30 days payment terms are stated at their nominal value less an allowance for any uncollectible amount if required. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

Inventories

Inventories are stated at the lower of cost and net realizable value using the weighted average cost formula.

Financial assets

Generally, Santhera classifies its financial assets in the following categories:

Financial assets at fair value through profit and loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. Valuation is at fair value through profit and loss. Financial assets at fair value through profit or loss are subsequently carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Santhera provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities longer than 12 months after the balance-sheet date. These are classified as noncurrent assets. Loans and receivables are measured at amortized cost using the effective interest method.

Purchases and sales of financial assets are recognized on their trade date. This is the date on which Santhera commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Santhera has transferred substantially all risks and rewards of ownership.

Leases

Leases of assets under which Santhera essentially assumes all the rewards and risks of ownership are classified as finance leases. Finance leases are capitalized as assets and liabilities at the commencement of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. The assets acquired under these contracts are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases, and payments made are charged to the income statement on a straight-line basis.

Cash and cash equivalents

This item includes cash in hand and at banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Financial liabilities

Santhera classifies its financial liabilities into two categories:

Financial liabilities at fair value through profit and loss

This category includes derivatives with negative replacement values. They are initially recognized at their fair value. Any subsequent change in fair value is recognized in the income statement in the period they occur.

Other liabilities measured at amortized costs

This category principally covers debt instruments and trade and other payables. They are initially recognized at fair value and subsequently measured at amortized costs using the effective interest method. Any difference between the net proceeds received and the principal value due on redemption is amortized over the duration of the debt instrument and is recognized as part of interest expense in the income statement.

Income taxes

The income tax charge is based on profit for the year and includes deferred taxes. Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance-sheet date.

The amount of deferred tax liabilities and deferred tax assets reflects the tax consequences on the balance-sheet date of the Company's expectation of recovery or settlement of such carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as noncurrent assets (liabilities) in the balance sheet. They are offset against each other if they relate to the same taxable entity and tax authority.

Deferred tax assets are recognized if it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance-sheet date, the Company reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company

conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized. Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Employee benefits

Post-retirement benefits

Santhera operates both, defined benefit and defined contribution pension schemes.

a) Defined benefit schemes

Payments under this scheme go directly to the pension fund in the name of each insured person. Typically, on retirement, an employee will receive an amount of the accumulated defined benefit obligation depending on several factors such as age, years of service and compensation in the form of a lifelong pension or a lump sum payment. The scheme also covers disability and death-in-service. In certain situations, a liability arises whereby periodic payments to the fund can be either increased or exceptional payments become due.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance-sheet date less the fair value of plan assets, taking into consideration the adjustments for unrecognized actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses, arising from experience adjustments or from changes in actuarial assumptions, in excess of the corridor which is the larger of either a) 10% of the value of plan assets or b) 10% of the defined benefit obligation, are charged or credited to personnel expenses over the employees' expected average remaining service period.

b) Defined contribution schemes

Defined contribution schemes are also funded through direct payments to the pension fund in the name of each insured person. On retirement, an employee will receive an amount of the accumulated contributions in the form of a lifelong pension or a lump sum payment. No further obligations arise from these schemes other than the fixed periodic contributions to the plan.

Share-based compensation

Santhera has established three stock option plans, the Employee Stock Option Plan 2004 (**ESOP 2004**), the Employee Stock Option Plan 2008 (**ESOP 2008**) and the Executive Incentive Plan (**EIP**) to align the long-term interests of the members of the Board, the Executive Management, employees and selected consultants (including scientific advisors) who are all eligible to participate in the ESOP 2004 and 2008. The EIP was only open to members of the Executive Management following the Company's initial listing on the SIX in November 2006. Options granted under the ESOP 2004,

the ESOP 2008 and the EIP are equity settled. The fair value of granted employee stock options is recognized as personnel expenses and accounted for over the relevant vesting periods of each grant in accordance with IFRS 2. Stock option plan modifications can be made and the expenses are at least recognized such, as if no terms were modified; modifications which increase the fair value of options are expensed additionally. Terminations of employment by the employer are treated as forfeiture and any previously accumulated share-based payment expenses for unvested awards are reversed.

Provisions

Provisions are recognized when Santhera has a present obligation (legal or constructive) as a result of a past event, where it is more probable than not that a cash outflow will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future outflows.

Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates, discounts, returns and after eliminating intercompany sales. Revenue is recognized when title, risks and rewards of the products are transferred to customers.

Revenue from out-licensing

Out-licensing agreements are concluded with third parties, where the counter party has to pay license fees. In situations where no further performance commitment exists, revenues are recognized on the earlier of when payments are received or collection is assured. Where continuing involvement is required in the form of technology transfer or technical support, revenues are recognized over the involvement period.

Revenue associated with upfront payments or performance milestones

Such revenue is recognized based on conclusion of new contracts or achievement of milestones, as defined in the respective agreements.

Revenue from royalties

Royalty payments are recognized on an accrual basis in accordance with the respective agreements.

Interest income

Interest income is recognized on a pro rata temporis basis using the effective interest method.

Research and development/intangible assets

Research and development (**R&D**) expenses are charged to the income statement as incurred. Development expenses are capitalized as intangible assets when it is probable that future economic benefits will flow to Santhera. Such intangible assets are amortized on a straight-line basis over the period of the expected benefit when the asset becomes available for use, and are reviewed for impairment at each balance-sheet date. Assets not available for use are tested annually.

3 Critical Accounting Estimates, Assumptions and Judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Santhera's accounting policies. Santhera makes estimates and assumptions concerning the future. The resulting accounting will not necessarily equal the related actual outcome. The following areas involve assumptions and estimates that can have a significant impact on the consolidated financial statements.

- Measurement and impairment testing of intangible assets (*see note 7 "Impairment Testing of Intangible Assets with Indefinite Lives"*).
- Personnel expenses in accordance with IFRS 2, i.e. estimates regarding the valuation of employee stock options (*see note 19 "Stock Option Plans"*) when granted or modified.
- Actuarial valuations in the context with defined benefit pension plans where various assumptions on e.g. discount rates, expected return on assets and mortality rates etc. bear significant uncertainties due to the long-term nature of the plans (*see note 25 "Employee Expenses and Benefits"*).

The following area involves a higher degree of judgment or complexity and can have a significant impact on the consolidated financial statements.

- The integration of Oy Juvantia Pharma, Turku, Finland (**Juvantia**), was treated as an asset acquisition. Juvantia in its condition in 2009 and before did not qualify for a business in accordance with IFRS 3 as it was not an integrated set of activities and assets conducted and managed for the purpose of providing a return or lower costs. Since mid 2006 Juvantia was operated as a shell company without any activities, no employees, no processes and own premises and therefore not capable of providing a return out of its own for its investors/owners. (*see note 6 "Intangible Assets"*).

4 Exchange Rates of Principal Currencies

	Income statement in CHF		Balance sheet in CHF	
	2009	average rates 2008	2009	year-end rates 2008
1 Euro (EUR)	1.5102	1.5874	1.4877	1.4888
1 US Dollar (USD)	1.0857	1.0831	1.0380	1.0561
1 Canadian Dollar (CAD)	0.9529	1.0192	0.9894	0.8643

5 Tangible Assets

	in CHF thousands	Laboratory and other equipment	IT hardware	Leasehold improvements finance lease ¹⁾	Leasehold improvements	2009
Cost						
At January 1		3,492	747	0	498	4,737
Additions		119	90	2,314	15	2,538
Disposals		-460	-137	0	0	-597
Exchange differences		0	-1	0	0	-1
At December 31		3,151	699	2,314	513	6,677
Accumulated depreciation and impairment losses						
At January 1		2,659	366	0	231	3,256
Additions		265	165	26	100	556
Impairment ²⁾		289	20	0	144	453
Disposals		-460	-137	0	0	-597
Exchange differences		0	0	0	0	0
At December 31		2,753	414	26	475	3,668
Net book value		398	285	2,288	38	3,009

1) The asset Finance lease consists of leasehold improvements of the new facilities of Santhera in Switzerland.

2) See note 31 "Effects from Restructuring".

	in CHF thousands	Laboratory and other equipment	IT hardware	Leasehold improvements finance lease	Leasehold improvements	2008
Cost						
At January 1		3,063	584	0	486	4,133
Additions		528	206	0	12	746
Disposals		-99	-43	0	0	-142
Exchange differences		0	0	0	0	0
At December 31		3,492	747	0	498	4,737
Accumulated depreciation and impairment losses						
At January 1		2,430	206	0	133	2,769
Additions		328	203	0	98	629
Disposals		-99	-43	0	0	-142
Exchange differences		0	0	0	0	0
At December 31		2,659	366	0	231	3,256
Net book value		833	381	0	267	1,481

The insured value of tangible assets amounts to CHF 9.6 million as of December 31, 2009 (December 31, 2008: CHF 9.6 million).

6 Intangible Assets

	in CHF thousands	Capitalized development costs		Fipamezole ¹⁾	IT software/ patents	2009
		Catena®/ Sovrima®	Catena®/ Sovrima®			
Cost						
At January 1	26,639	3,764	0	405	30,808	
Additions	0	0	3,918	0	3,918	
Disposals	0	0	0	-17	-17	
Exchange differences	-19	0	0	0	-19	
At December 31	26,620	3,764	3,918	388	34,690	
Accumulated amortization and impairment losses						
At January 1	486	2	0	170	658	
Additions	67	10	67	123	267	
Disposals	0	0	0	21	21	
Impairment	0	0	0	-17	-17	
Exchange differences	-1	0	0	0	-1	
At December 31	552	12	67	297	928	
Net book value	26,068	3,752	3,851	91	33,762	

1) The asset fipamezole (from Juvantia) contains of a formulation patent expiring in November 2023. It was acquired in September 2009 partly through a capital/share premium increase and a cash payment of CHF 0.8 million to the Finnish funding organization Tekes (see note 18 "Commitments and Contingent Liabilities").

	in CHF thousands	Capitalized development costs		Fipamezole	IT software/ patents	2008
		Catena®/ Sovrima®	Catena®/ Sovrima®			
Cost						
At January 1	29,629	3,764	0	260	33,653	
Additions	0	0	0	145	145	
Disposals	0	0	0	0	0	
Exchange differences	-2,990	0	0	0	-2,990	
At December 31	26,639	3,764	0	405	30,808	
Accumulated amortization and impairment losses						
At January 1	492	0	0	47	539	
Additions	12	2	0	123	137	
Disposals	0	0	0	0	0	
Exchange differences	-18	0	0	0	-18	
At December 31	486	2	0	170	658	
Net book value	26,153	3,762	0	235	30,150	

7 Impairment Testing of Intangible Assets

IAS 36 requires assessing an asset not available for use for impairment on an annual basis by comparing the carrying value to its recoverable amount. The recoverable amount is the higher of the fair value less cost to sell and the value in use.

Catena®/Sovrima® (INN: idebenone) and capitalized development costs

Catena®/Sovrima® and the capitalized development costs amounting to CHF 29,8 million are the primary intangible assets of Santhera and form the base of the Catena®/Sovrima® development projects of which the Friedreich's Ataxia project is close to market approval in the US, Europe and Switzerland. In July 2008, a first product approval was achieved through a Notice of Compliance with Conditions in Canada by Health Canada for the treatment of symptoms of FA. First deliveries of the drug occurred in November 2008.

Due to this event, the intangible asset was split into two parts: the Canadian asset amounts to CHF 0.7 million per year-end 2009 (2008: CHF 0.8 million) and has been classified as an intangible asset with finite useful life while the asset outside Canada remains classified as an intangible asset not in use, such split being based proportionally on expected revenues in each of the regions.

Since Santhera's main intangible asset does not generate cash flows on a stand-alone basis with the exception of the proportion allocated to the Canadian market in the current year, the remaining asset was allocated to the company which is considered to be the smallest identifiable group of assets that generates cash flows that are largely independent.

Santhera applies, in line with IAS 36, the method of value in use to calculate the recoverable amount. Management used the risk-adjusted Net-Present-Value (**rNPV**) model which is a customary model for the valuation of pharmaceutical intangibles. This method will also be applied to assess the Canadian intangible asset for impairment in case of the existence of an indicator of impairment.

Sensitivity to changes in assumptions

The rNPV model considers the net cash flows over the expected life time of the products based on the life time of the underlying intellectual property or the market exclusivity granted through orphan drug protection. For the purpose of estimating these cash flows Santhera made estimates about the expected revenues based on estimated market size and patient numbers, expected market penetration rates, product pricing and project- or product-related costs.

For the assessment of the recoverable amount of intangible assets not in use, the valuation further is based on an rNPV, taking into consideration the expected cumulated probability of reaching the market. The recoverable amount of the intangible assets with finite useful life was calculated on an rNPV basis only as there is no need for such risk-adjustment.

The key assumptions for the tests were as follows:

	2009	2008
Discount rate (WACC)	15%	15%
Market growth rate (terminal value)	0%	0%
Probability of reaching market	70%	90%
Period of projected cash flows	5 years	5 years

The impairment test of the recoverable amount of the intangible assets performed as explained above, does not result in the requirement to recognize impairment of the carrying value of Catena®/Sovrima® and capitalized development costs.

An uncertainty remains as to whether a final and successful market registration could be achieved. Therefore, at the balance-sheet date, a respective risk of causing a future adjustment to the carrying amount of the Catena®/Sovrima® projects remains.

8 Inventories

	in CHF thousands	2009	2008
Finished goods		69	57
Half-finished goods		78	0
Raw material		3,130	4,005
Total at December 31		3,277	4,062

Inventories represent the value of mainly active pharmaceutical ingredients which is kept by Santhera as stock for launch and inventory risk management purposes (security stock) for Catena®/Sovrima® in the indication FA only. During 2009 CHF 798,939 was expensed as development expenses for clinical trials (CHF 531,356 during 2008).

9 Trade and Other Receivables

	in CHF thousands	2009	2008
Trade receivables		326	43
Other receivables (financial)		0	0
Other receivables (non financial)		715	1,421
Total at December 31		1,041	1,464

Other receivables consist mainly of amounts due from the government for tax reimbursements (VAT) and other positions (reimbursement of expenses). They are due within 30 to 120 days and bear no interest. No allowance for doubtful debts was recognized on the receivables as management estimates that no allowance is necessary as of December 31, 2009.

10 Financial Assets and Liabilities – Short- and Long-term

In September 2009, the Santhera organization in Switzerland moved to a new rental building. Some installations were built-in following Santhera's specifications, and therefore the lease contract qualifies as a finance lease liability in accordance with IAS 17. This total financial lease liability amounted to CHF 2.3 million as per December 31, 2009 (CHF 0 as per December 31, 2008), split into a short- and long-term portion (short-term CHF 30,509, long-term CHF 2.27 million).

No derivative contracts were in place by the end of the reporting period (as per end of 2008 the fair value of such contracts amounted to a liability of CHF 256,111). Financial assets long-term include cash deposits (with the government for customs clearance and other) of CHF 10,000 (December 31, 2008: CHF 10,000).

11 Cash and Cash Equivalents

	in CHF thousands	2009	2008
Cash at banks and on hand			
In EUR		8,692	1,756
In CHF		20,498	11,877
In USD		5,966	5,009
In CAD		519	171
Short-term money market deposits			
In EUR		8,926	14,590
In CHF		0	40,000
In USD		8,719	1,603
In CAD		0	0
Total at December 31		53,320	75,006

Cash at banks earns interests at floating rates based on monthly bank deposit rates. Some funds are kept as short-term money market deposits with a time horizon of currently up to three months at money market rates. The fair value of the entirety of these positions per year-end amounted to CHF 53.3 million (2008: CHF 75.0 million).

12 Share Capital

Ordinary share capital

As of January 1, 2008, the share capital amounted to CHF 3,118,861, representing a total of 3,118,861 Shares at a nominal value of CHF 1.00 each. In February 2008, 9,818 Shares were issued from conditional capital upon the exercise of warrants allocated to the investors of Juvantia in 2006 upon entering the collaboration agreement with Juvantia. In November 2008, 370,082 Shares were issued from the authorized share capital in a private placement, increasing the share capital by CHF 370,082. During 2008, 15,138 Shares were issued from conditional capital upon the exercise of stock options under the ESOP 2004 and the EIP. As a consequence, as of December 31, 2008, the share capital amounted to CHF 3,513,899, divided into 3,513,899 Shares at a nominal value of CHF 1.00 each.

On September 29, 2009, 105,973 Shares were issued from authorized share capital upon the closing of the acquisition of Juvantia, increasing the share capital by CHF 105,973 (contribution in kind). During 2009, 37,347 Shares were issued from conditional capital upon the exercise of stock options under the ESOP 2004 and the EIP. Therefore the share capital amounted to CHF 3,654,219, divided into 3,654,219 Shares at a nominal value of CHF 1.00 each.

Authorized share capital

At its 2008 Shareholder's Meeting, the Company's shareholders approved an authorized share capital authorizing the Board to increase the share capital by a maximum of CHF 800,000 through the issuance of 800,000 Shares with a nominal value of CHF 1.00 each. Out of this amount 370,082 Shares at a nominal value of CHF 1.00 each, were issued in November 2008 and in October 2009, 105,973 Shares were issued at a nominal value of CHF 1.00 (see paragraph above), reducing the available amount of authorized share capital to CHF 323,945 as of December 31, 2009. The Board is authorized to increase the share capital by up to this amount at any time until April 20, 2010 through the issuance of up to 323,945 registered Shares with a nominal value of CHF 1.00 each. An increase in partial amounts is permitted. For each such increase, the Board shall determine the issue price, the type of payment, the date of issuance of new Shares, the conditions for the exercise of pre-emptive rights and the beginning date for dividend entitlement.

Conditional share capital

At its 2008 Shareholder's Meeting, the Company's shareholders approved a maximum increase of the share capital by an aggregate amount of CHF 700,000 through the issuance of a maximum of 700,000 Shares with a nominal value of CHF 1.00 each. The Shares can be issued through the exercise of option rights which are granted according to respective regulations of the Board. The exercise price of each option to be granted shall – at the full discretion of the Board – either equal (i) the weighted average share price during the three months preceding the grant, for employees outside North America, or (ii) the closing price of the share at the grant date, for employees in North America. With respect to options that can be converted into 175,000 Shares as part of the total available conditional capital, the exercise price must be at least CHF 90. The pre-emptive rights of the shareholders are excluded.

In addition, the shareholders approved a maximum increase of the share capital by an aggregate amount of CHF 500,000 through the issuance of a maximum of 500,000 Shares with a par value of CHF 1.00 per share by the exercise of option and/or conversion rights which are granted in connection with the issuance of bonds, similar obligations or other financial instruments by the Company or another group company, and/or by the exercise of options which are granted by the Company or another group company. In the case of the issue of bonds, similar obligations or other financial instruments linked with option and/or conversion rights, and in the case of the issue of option rights, the pre-emptive right of shareholders is excluded.

As of December 31, 2009, the Company had a conditional share capital, pursuant to the above provisions to increase the share capital by:

- (i) a maximum additional amount of CHF 650,515 by issuing up to 650,515 additional Shares, under the exclusion of shareholders' pre-emptive rights, for option rights being exercised under the Company's stock option plans (*see note 19 "Stock Option Plans"*), whereas 175,000 Shares may not be issued at an exercise price below CHF 90; and
- (ii) a maximum amount of CHF 490,182 by issuing up to 490,182 Shares, through the exercise of warrants/options and/or notes granted in connection with bonds or similar debt instruments linked with option and/or conversion rights granted by the Company.

13 Deferred Taxes

Net deferred taxes recorded

	in CHF thousands	2009	2008
Temporary differences on personnel expenses		43	0
Deferred tax assets recognized		43	0
Temporary differences on intangible assets		4,025	3,923
Tax loss carry forwards		-3,968	-3,884
Temporary differences on pension liabilities		-57	-39
Deferred tax liabilities recognized		0	0
Tax loss carry forwards		191,670	172,029
Of which recorded		-26,452	-25,890
Of which unrecorded		165,218	146,139
Expiring			
One year		4,319	3,089
Two years		13,101	4,319
Three years		3,632	18,289
Four years		34,134	3,632
Five years		21,958	34,130
More than five years		75,060	69,446
Without expiration		13,014	13,234
Total unrecorded tax loss carry forwards		165,218	146,139

Due to the uncertainty surrounding the future results of operations and the uncertainty as to whether Santhera can use the loss carry forwards for tax purposes, deferred tax assets on tax loss carry forwards were only considered to the extent that they offset taxable temporary differences within the same taxable entity. As there are no temporary differences associated with investments in subsidiaries no deferred tax liability has to be recognized. Furthermore there are no income tax consequences for Santhera of paying a dividend to its shareholders.

14 Trade and Other Payables

	in CHF thousands	2009	2008
Trade payables		3,295	1,686
Other payables (financial)		0	0
Other payables (non financial)		315	579
Total at December 31		3,610	2,265

All positions are non interest bearing and usually settled within 30 to 60 days.

15 Accrued Expenses

	in CHF thousands	2009	2008
R&D programs		3,018	3,831
Liabilities to employees and severance payments		496	1,229
Accrued sales expenses		222	0
Other		600	479
Total at December 31		4,336	5,539

16 Short-term Provisions

	in CHF thousands	Restructuring expenses	Various items	2009	2008
At January 1		0	150	150	351
Utilization		0	0	0	0
Reversal		0	0	0	-177
Additions		412	0	412	0
Exchange differences		-4	0	-4	-24
Total at December 31		408	150	558	150

Amounts in 2009 result from provisions in the context with the restructuring announced in July 2009 (the position from 2008 contains provisions for personnel arrangements and probable expenses in connection with potential legal cases).

17 Contingent Assets

Collaboration with Takeda

In 2005, Takeda Pharmaceutical Company Ltd, Osaka, Japan (**Takeda**), and Santhera concluded a license agreement under which Santhera will conduct all clinical development work necessary for regulatory approval of Catena®/Sovrima® in the indication FA and licensed the exclusive marketing rights for the European Union (EU) and Switzerland to Takeda. Santhera received an up-front payment of EUR 5.0 million in 2005 and a milestone payment of EUR 3.0 million for achieving the acceptance of the Marketing Authorization Application (MAA) by the European Medicines Agency (EMA) in August 2007. Santhera is entitled to one further milestone payment over EUR 4.0 million upon the transfer of the granted MAA approval to Takeda. In case of commercialization, Takeda will pay a total of 30% of their net sales in the EU and Switzerland which also include payments for finished goods supplied from Santhera to Takeda.

In August 2009, Takeda and Santhera established a named patient program (NPP) in the EU with Catena® in FA through a third party contractor. Under this agreement, Takeda is entitled to 75% and Santhera to 25% of the gross sales. Outside North America and the EU, Santhera established its own NPP.

In August 2007, Santhera and Takeda entered into another agreement granting Takeda the European marketing rights to Catena®/Sovrima® in the indication Duchenne Muscular Dystrophy (DMD). Under the terms of the licensing agreement, Santhera remains responsible for the clinical development and regulatory approval in the EU and Switzerland. Takeda obtained an exclusive license to market idebenone under its brand name Sovrima® in the EU and Switzerland in DMD upon which Santhera in return received an upfront payment of EUR 2.0 million from Takeda. In September 2009 Santhera received a first milestone payment over EUR 5.0 million upon the randomization of the first patient into the running pivotal DELOS Phase III study and is entitled to further milestone payments, each upon the acceptance of the filing by the EMA and transfer of the granted MAA approval to Takeda, totaling up to EUR 13.0 million. In case of commercialization, Takeda will pay a total of 30% of their net sales in the EU and Switzerland which also include payments for finished goods supplied from Santhera to Takeda.

Collaboration with Biovail

In August 2009, Santhera Pharmaceuticals (Schweiz) AG and Biovail Laboratories International SRL, Montréal, Canada (**Biovail**), entered into a license agreement to develop and commercialize fipamezole in the United States of America (**US**) and Canada. Santhera received an upfront payment of USD 8.0 million and a first milestone payment of USD 4.0 million upon the successful closing of the acquisition of Juvantia. Biovail will pay up to USD 35.0 million in potential development and regulatory milestones associated with the initiation of a Phase III study, regulatory submissions and approvals of fipamezole in Dyskinesia Parkinson's Disease in the US and Canada. The agreement also stipulates that Biovail will make additional milestone payments of up to USD 145.0 million as certain sales thresholds are met. Santhera will also receive royalty payments of 8% to 15% on net commercial sales of fipamezole in the US and Canada. Should Biovail pursue a second indication with fipamezole, up to USD 20.0 million in additional success milestones would be payable to Santhera upon approval. Biovail will be responsible for the remaining clinical development programs and costs in the US and Canada. Santhera retains copromotion rights in the US.

Agreement with Association Française contre les Myopathies

In October 2009, Santhera entered into an agreement with Association Française contre les Myopathies, Paris, France (**AFM**). AFM is a non-governmental public utility institution with the single intention to defeat neuromuscular diseases. Santhera was awarded over a total of EUR 0.7 million for the further non-clinical development of Santhera's omigapil in Congenital Muscular Dystrophy (**CMD**) as a preparation to enter Phase II/III clinical development. As per the agreement Santhera has received the first half of the granted amount in 2009 and is entitled to receive the remaining amount of EUR 0.37 million in 2010.

18 Commitments and Contingent Liabilities

Commitments

Commitment for operating lease: equipment/vehicle

Santhera has lease contracts mainly for equipment used in research and one vehicle. The future minimum lease payments under non-cancelable operating leases are as follows:

	in CHF thousands	2009	2008
Within 1 year		30	23
1 year through 5 years		34	0
After 5 years		0	0
Total at December 31		64	23

Commitment for operating lease: buildings

Santhera has lease contracts for its facilities in Liestal, Switzerland, Charlestown, US and Montréal, Canada.

	in CHF thousands	2009	2008
Within 1 year		808	749
1 year through 5 years		950	2,075
After 5 years		0	0
Total at December 31		1,758	2,824

Commitment for finance lease

	in CHF thousands	2009		2008	
		Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within 1 year		162	153	0	0
1 year through 5 years		648	534	0	0
After 5 years		3,995	1,617	0	0
Total minimum lease payments		4,805	2,304	0	0
Less amounts representing financing charges		-2,501	0	0	0
Total at December 31		2,304	2,304	0	0

In case Santhera terminates the rental contract in Liestal, Switzerland, after the fixed period which lasts until March 31, 2012, an amount of up to CHF 2.1 million will become payable for leasehold improvements. This amount is gradually reduced to CHF 1.0 million after ten years and to CHF 0 after 30 years. In case a subsequent tenant enters into the lease contract under the same terms and conditions, no such payments will be due.

Contingent liabilities

License agreement with Institut National de la Santé et de la Recherche Médicale

Based on a license agreement between Santhera Pharmaceuticals (Schweiz) AG and the Institut National de la Santé et de la Recherche Médicale, Paris, France (**INSERM**), Santhera has an obligation to make a milestone payment (EUR 150,000) after the first New Drug Application for Catena[®]/Sovrima[®] in FA filed with the US Food and Drug Administration. In further consideration of the rights and licenses granted, Santhera has an obligation to pay INSERM a running royalty equal to 3% of net sales, not to exceed EUR 500,000 per year and Santhera has to pay 25% of non-royalty sublicense income received in the US and Canada.

Collaboration and license agreement with Takeda

The collaboration and license agreement with Takeda in the indication FA foresees a partial repayment of the initially received up-front payment by Santhera (in 2005) in case Santhera does not obtain marketing approval in Europe for Catena[®]/Sovrima[®] in FA in the amount of EUR 1.0 million. Under certain conditions an amount of up to EUR 2.0 million of the royalty income may not be payable by Takeda for Catena[®]/Sovrima[®] in FA.

Agreement with the University of Leuven

In March 2005, Santhera entered into an agreement with Katholieke Universiteit Leuven, Leuven, Belgium (**K.U. Leuven**), whereby K.U. Leuven assigned to Santhera its worldwide rights to inventions relating to the use of Catena[®]/Sovrima[®] to treat various forms of muscular dystrophy related disorders, including DMD. Based on this agreement, Santhera has filed a patent application in major countries covering the use of Catena[®]/Sovrima[®] for the treatment of cardiomyopathy and muscle weakness in DMD.

K.U. Leuven is entitled to a success fee of up to EUR 400,000 when Santhera commercializes any product in a major market, such as Europe, the US or Japan. In addition, in the event Santhera commercializes the product itself, K.U. Leuven is entitled to 5% royalties on net sales. In the event Santhera grants commercialization rights to a third party K.U. Leuven will receive 15% of the consideration received by Santhera from such third party for commercialization, excluding payments received to fund certain development work at K.U. Leuven. Santhera and K.U. Leuven agreed that K.U. Leuven will receive 15% of any consideration Takeda will make to Santhera at filing for MAA in the EU or at any later stage under their agreement signed in 2007 for marketing rights in DMD.

License agreement with Novartis

On June 30, 2007, Santhera entered into an agreement with Novartis Pharma AG, Basel, Switzerland (**Novartis**), regarding the in-licensing of the compound omigapil from Novartis. Santhera intends to develop omigapil for the treatment of CMD. Additional payments will be due to Novartis a) upon start of a pivotal clinical trial, b) upon regulatory approval in major markets and c) after reaching certain commercialization milestones. Santhera will also have to pay royalties to Novartis, calculated on Santhera net sales.

Agreement with Association Française contre les Myopathies

In October 2009, Santhera entered into an agreement with AFM (see note 17 "Contingent Assets"). In case Santhera can launch omigapil in Ulrich Congenital Muscular Dystrophy it has to make a mandatory payment of EUR 0.7 million. Two years after previously mentioned launch Santhera has to make a final payment of EUR 1.5 million to AFM.

Capital loans from Finnish Funding Agency for Technology and Innovation

In connection with the acquisition of Juvantia in 2009, the title of capital loans from the Finnish Funding Agency for Technology and Innovation, Helsinki, Finland (**Teles**), were passed on to Santhera. The loans were granted by Teles in order to develop new medicines for movement disorders in Parkinson disease and thus the compound fipamezole. Once a first marketing approval for fipamezole in a major country is received, EUR 2.4 million plus accrued interests will be due. Another EUR 2.4 million plus accrued interests will be due one year after the first marketing authorization. Should no marketing authorization be granted, no payments will be due to Teles under these capital loans.

Capital loans from Finnish National Fund for Research and Development

In connection with the acquisition of Juvantia in 2009, the title of capital loans from the Finnish National Fund for Research and Development, Helsinki, Finland (**Sitra**), were passed on to Santhera. The loans were granted by Sitra in order to develop new medicines for movement disorders in Parkinson disease and thus the compound fipamezole. Once a first marketing approval for fipamezole in a major country is received before December 31, 2014, EUR 0.2 million will be due. Another EUR 0.2 million will be due one year after the first marketing authorization. Should no marketing authorization be granted, no payments will be due to Sitra under these capital loans.

Agreement with Orion Corporation Orion Pharma

In connection with the acquisition of Juvantia in 2009, Santhera was assigned the license agreement with Orion Corporation Orion Pharma, Espoo, Finland (**Orion**), on certain US patent rights on fipamezole. Under this license agreement Santhera shall pay to Orion 1% on the US net sales and a limited royalty of up to USD 4.4 million based on future development and sales milestones received.

Final tax assessment of Juvantia

In connection with the liquidation of Juvantia and the transfer of intellectual property into Switzerland, the company faces an uncertain tax position in the maximum amount of EUR 250,000 from the Finnish tax authorities.

Contracts for clinical development

Santhera has entered into contracts for clinical development with Contract Research Organizations and clinics. Santhera compensates these parties for services provided on a regular basis. It has the right to terminate the agreements at any time at its sole discretion. In case of early termination Santhera must pay for all cost incurred by the respective counterparty up to termination. The expected payments for these contracts are as follows:

	in CHF thousands	2009	2008
Within 1 year		5,245	9,232
1 year through 5 years		2,625	1,212
After 5 years		0	0
Total at December 31		7,870	10,444

19 Stock Option Plans

Santhera has established stock option plans to align the long-term interests of the Directors, the Executive Management, employees and consultants, including members of the Scientific Advisory Board (**SAB**). Options granted under the stock option plans are equity settled.

Executive Incentive Plan

In November 2006, under the EIP, the members of the Executive Management were granted stock options to acquire 101,065 shares, as a management incentive. Each of these stock options entitles its holder to purchase one share at an exercise price of CHF 1.00. The vesting period of the options was one year. At the end of the option term, i.e. after a period of ten years as from the grant date, all unexercised stock options shall expire without value. The plan contains provisions in respect of adjustment or cancellation of options upon termination of employment, disloyalty and severe breach of duties, retirement, death, disability and certain corporate transactions. The EIP is administered under the responsibility of the Board. No further grants can be made under the EIP.

Options outstanding, vested or exercised under the EIP

All options under the EIP were granted to the four members of the Executive Management as of November 8, 2006, and had a vesting period of 12 months (*see note 29 "Related Party Transactions"*). 16,785 options under the EIP were exercised during the twelve-month period ended December 31, 2009 (3,616 options during 2008). The remaining number of options outstanding from the EIP is 75,943 as of December 31, 2009 (92,728 options as of December 31, 2008).

Employee Stock Option Plans

The Company has adopted the ESOP 2004 and ESOP 2008 to provide incentives to Directors, the Executive Management, employees and consultants (including members of the SAB) and help to ensure their commitment to Santhera over the long-term. Since January 1, 2008, new grants started to be allocated under the ESOP 2008. Option grants are made from time to time at the discretion of the Board (or as contractually agreed with senior employees) based on proposal by the Nomination and Compensation Committee. The ESOP 2004 and the ESOP 2008 contain customary provisions in respect of the adjustment or cancellation of stock options upon termination of employment, retirement, death, disability, certain corporate transactions, and events or changes in the Company's shareholder base. The ESOP 2008 is administered under the responsibility of the Board. Each stock option entitles its holder to purchase one Share of the Company at an exercise

price defined to be either a) equal to the volume weighted average share price in the preceding calendar quarter for Swiss employees or b) the closing share price on the SIX Swiss Exchange at each grant date for employees in the US and Canada only. In general, 50% of the stock options shall vest on the second anniversary, 25% on the third anniversary and the remaining 25% on the fourth anniversary of the grant date. At the end of the option term, i.e. after a period of 10 years as from the grant date, unexercised stock options shall expire without value. Subject to the provisions of the ESOP 2004 and the EIP, vested stock options of employees leaving the company in good faith do not lapse. Under the ESOP 2008 vested stock options of employees leaving the company in good faith will expire six months after the termination date of the employment. Unvested stock options of employees leaving the company are forfeited under all stock option plans.

As per October 1, 2009, holders of stock options granted under ESOP 2008, with the exception of members of the Board of Directors and members of the Executive Management, were offered a plan modification enabling them to replace existing options with new stock options with all terms applicable subject to the ESOP 2008, including standard strike prices, vesting periods and option terms. A number of 68,575 earlier granted stock options were cancelled and in the same amount new options were granted and hence replaced under the ESOP 2008. For accounting purposes the transaction was treated as a replacement award, and the originally granted options continue to be expensed over the original vesting periods and the incremental fair value of the replacement options is expensed from the date of modification until vesting (CHF 0.3 million).

As of December 31, 2009, the number of stock options which can be granted amounts to 233,852 (332,591 end of 2008) whereof 175,000 stock options if granted could not have an exercise price below CHF 90.

Options outstanding, vested or exercised under ESOP 2004 and ESOP 2008

As of December 31, 2009, 17,562 stock options under the ESOP 2004 were exercised (11,522 during 2008), 2,362 stock options were forfeited (1,100 during 2008); under ESOP 2008 13,274 stock options were forfeited (0 during 2008). The number of options outstanding from the ESOP 2004 and the ESOP 2008 is 340,720 as per December 31, 2009 (259,543 options were outstanding as per December 31, 2008).

Fair value calculations for stock options granted under ESOP 2008

The fair value of stock options is determined at each grant date by using the Hull-White option pricing model. The calculation of the option value was performed by applying the following parameters:

	2009	2008
Market price of stock	CHF 24.20 – 52.40	CHF 33.00 – 95.00
Exercise prices	CHF 27.15 – 46.00	CHF 45.35 – 95.70
Expected volatility ¹⁾	60%	50%
CHF risk-free interest rate	2.16 – 2.63% p.a.	3.30 – 3.42% p.a.
Option term ²⁾	10 years	10 years
Expected dividend yield	0.00%	0.00%

1) The expected volatility was determined on the basis of the historical volatility of relevant equity indices and implied volatilities of warrants on shares of selected biotech companies. The weighted-average fair value of the stock options granted during the reporting period incl. replacement awards in 2009 was CHF 19.23 (CHF 25.17 in 2008).

2) After expiration of the vesting period, the stock options become American style options and may be exercised any time until the end of the option term. The option pricing model takes into consideration certain assumptions about potential early exercises. In 2009 a total of 4,000 options were granted with an option term of 5 years.

Options outstanding and exercisable

	Number of options	2009	2008
Outstanding at January 1		352,271	297,509
Granted ¹⁾		114,375	71,000
Exercised ²⁾		-34,347	-15,138
Forfeited		-15,636	-1,100
Cancelled		0	0
Expired		0	0
Outstanding at December 31		416,663	352,271
Exercisable at December 31		233,396	230,627

1) In 2009, 68,575 options have been granted as a replacement award, besides the 114,375.

2) The average closing share price of the trading days when options were exercised during the reporting period was CHF 32.99 (CHF 68.34 during 2008).

The options granted are recognized as personnel expenses over their vesting period. In 2009, option grants resulted in personnel expenses of CHF 1,830,235 (CHF 599,797 related to R&D, CHF 350,016 related to Marketing & Sales [M&S] and CHF 880,422 to General & Administration [G&A]) and in 2008 such grants resulted in personnel expenses of CHF 1,680,028 (CHF 400,858 related to R&D, CHF 261,429 related to M&S and CHF 1,017,741 to G&A).

Terms of options outstanding at December 31

Exercise price range for options (CHF)	Number outstanding	Weighted average remaining contractual life (years)	2009		2008	
			Number exercisable	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
1.00	82,154	6.62	82,154	116,501	7.53	112,001
from 27.15 to 30.10	114,875	9.58	0	0	0	0
from 44.45 to 46.00	34,426	8.67	1,701	2,200	9.76	0
from 59.44 to 68.30	152,688	4.94	137,381	187,450	6.85	115,467
from 72.70 to 114.50	32,520	7.50	12,160	46,120	8.73	3,150
Total	416,663	7.06	233,396	352,271	7.34	230,627

20 Segment and Geographic Information

Segment information

Santhera operates in one operating segment, namely the discovery, development and commercialization of small-molecule pharmaceutical products for the treatment of severe neuromuscular diseases. The Board, the Executive Management and the Management Team, being the CODM, assess the reporting data and allocate resources as one segment on an aggregated consolidated level according operating expenses by function. Santhera generates revenue from sales of Catena® for the treatment of FA. Geographic revenue information is based on location of the customer.

Geographical information

	in CHF thousands	2009	2008
Net sales:			
North America		1,567	48
EU		76	0
Switzerland		0	0
Other revenue:			
North America		13,004	0
Asia		7,692	0
Total		22,339	48
Non-current assets (excluding financial instruments and deferred taxes):			
EU		25,950	26,035
Switzerland		10,804	5,578
North America		17	18
Total		36,771	31,631

In 2009 net sales result from product sales of Catena® in Canada (CHF 1.57 million) and Rest of the World through the NPPs (CHF 0.08 million). In 2008 all net sales of Catena® were made in Canada. Other revenue results from a milestone payment from Takeda (CHF 7.7 million, EUR 5.0 million respectively) and an upfront payment from Biovail (CHF 13.0 million, USD 12.0 million respectively). No other revenue was generated during 2008.

21 Gross Profit Breakdown

	in CHF thousands	2009	2008
Net sales		1,643	48
Other revenue		20,696	0
<i>Of which upfront and milestone payments</i>		20,696	0
Net revenue		22,339	48
Cost of goods sold (COGS)		-244	-23
<i>Of which amortization of intangibles</i>		-77	-13
Gross profit		22,095	25

22 Other Operating Income

This position consists of reimbursements for development expenses in the indication of omigapil from AFM and other scientific programs.

23 Operating Expenses by Function

	in CHF thousands	2009	2008
Research (preclinical)		-7,048	-8,741
Development		-24,488	-22,726
R&D expenses		-31,536	-31,467
<i>Of which noncash-relevant expenses for share-based payments</i>		-600	-401
M&S expenses		-3,752	-3,484
<i>Of which noncash-relevant expenses for share-based payments</i>		-350	-261
Business development and licensing		-3,097	-1,211
Finance and administration		-10,109	-9,413
G&A expenses		-13,206	-10,624
<i>Of which noncash-relevant expenses for share-based payments</i>		-880	-1,018
Other operating expenses		-50	-67
Total operating expenses		-48,544	-45,642

Amortization of intangibles is included in COGS, R&D expenses as well as G&A expenses.

24 Operating Expenses by Nature

	in CHF thousands	2009	2008
External R&D expenses		-23,101	-23,195
Patent and license expenses		-263	-434
Marketing expenses		-1,285	-1,765
Employee expenses		-16,190	-15,054
<i>Of which noncash-relevant expenses for share-based payments</i>		-1,830	-1,680
G&A expenses		-6,053	-4,036
Depreciation amortization and impairment		-1,220	-752
Lease expenses		-382	-339
Other operating expenses		-50	-67
Total operating expenses		-48,544	-45,642

25 Employee Expenses and Benefits

Employee expenses

	in CHF thousands	2009	2008
Wages and salaries		-12,179	-11,425
Social security and other personnel related expenses ¹⁾		-2,181	-1,949
Share based payments		-1,830	-1,680
Total employee costs		-16,190	-15,054
Average number of full-time equivalents²⁾		73.9	74.9
Full-time equivalents at year-end		52.7	80.9
Total headcount at year-end		56	90

1) Thereof CHF 69,056 was expensed for defined contribution plans in North America in 2009 (2008: CHF 11,012).

2) For the calculation of full-time equivalents, only employees with part-time and full-time permanent working contracts and no employees working on a temporary or hourly, non-permanent basis are taken into consideration.

Termination benefits

Following the restructuring of certain operations of Santhera in Switzerland, termination benefits in the amount of CHF 96,736 in cash were paid in 2009 (2008: CHF 0). CHF 20,065 was (non-cash relevant) expensed in 2009 as a result of an accelerated vesting of share-based payments as termination benefit (2008: CHF 0).

Pension plan

In accordance with the Swiss pension fund law, all Swiss employees of Santhera Pharmaceuticals Holding AG and Santhera Pharmaceuticals (Schweiz) AG have to be affiliated with a collective pension fund. Whereas the risks of death and disability are fully reinsured by the insurance company, the savings plan must be qualified as a defined benefit plan.

An independent actuary has performed the respective calculations as required by IAS 19:

Changes in defined benefit obligations

	in CHF thousands	2009	2008
Present value of obligation, January 1		8,815	6,860
Current employer service cost		873	729
Interest cost		316	240
Employee contributions		699	692
Benefits paid/transfer payments		-545	568
Insurance premiums		-415	-421
Plan settlement		-2,916	0
Plan curtailment		-143	0
Actuarial (gain) loss on obligation		-11	147
Present value of obligation, December 31		6,673	8,815

Changes in plan assets

	in CHF thousands	2009	2008
Fair value of assets, January 1		8,266	6,521
Expected return on assets		338	285
Employer contributions		699	692
Employee contributions		699	692
Benefits paid/transfer payments		-545	568
Insurance premiums		-415	-421
Plan settlement		-2,916	0
Actuarial gain (loss) on assets		-56	-71
Fair value of assets, December 31		6,070	8,266

Amounts recognized in the income statement

	in CHF thousands	2009	2008
Current employer service cost		873	729
Interest cost		316	240
Expected return on plan assets		-338	-285
Recognition of actuarial (gain) loss (curtailment/settlement)		-34	0
Company's net periodic pension cost		817	684

Amounts recognized in balance sheet

	As of December 31, in CHF thousands	2009	2008
Present value of defined benefit obligations		6,673	8,815
Fair value of plan assets		-6,070	-8,266
Present value of net obligation (asset)		603	549
Net unrecognized actuarial (loss) gain		-222	-286
Pension liability (asset) recognized in the balance sheet		381	263

History of experience adjustments

As of December 31, in CHF thousands	2009	2008	2007	2006
Present value of defined benefit obligations	6,673	8,815	6,860	3,968
Fair value of plan assets	-6,070	-8,266	-6,521	-3,606
Deficit/(surplus)	603	549	339	362
Experience adjustments on plan liabilities (gain (-); loss (+))	-186	270	155	139
Experience adjustments on plan assets (gain (-); loss (+))	-56	-71	17	-21
Actual return on assets	282	214	155	89

The expected contributions for fiscal year 2010 amount to approximately CHF 528,000 (2009: CHF 712,000).

Plan assets

As of December 31, in %	Allocation	2009 Expected return ¹⁾	Allocation	2008 Expected return
Equity securities	18.8	6.2	17.8	6.6
Debt securities	51.7	2.1	52.3	2.9
Real estate	9.0	3.9	6.7	4.5
Other ²⁾	20.5	3.3	23.2	4.3
Total	100.0	3.3	100.0	4.0

1) Expected returns on plan assets are based on market expectations.

2) This includes mortgage loans, hedge funds and liquidity.

There are no investments in Shares of Santhera.

The principal actuarial assumptions used to calculate the net liability and net periodic pension cost were as follows:

	in %	2009	2008
Discount rate		3.30	3.80
Expected return on plan assets		3.30	4.00
Expected future salary increases		1.50	1.50
Expected future pension increases		0.25	0.25
Expected long-term credited interest rate		3.00	3.80

26 Financial Income/Expenses**Financial income**

	in CHF thousands	2009	2008
Interests on cash and cash equivalents		236	2,111
Realized and unrealized FX gains		3,151	3,642
Gain on derivatives		256	0
Total		3,643	5,753

Financial expenses

	in CHF thousands	2009	2008
Interest expenses		-31	-42
Interest expenses for finance lease		-44	0
Realized and unrealized FX losses		-3,503	-4,670
Net loss on derivatives		0	-227
Other financial expenses		-26	0
Total		-3,604	-4,939

27 Income Taxes

	in CHF thousands	2009	2008
Current income tax expense		-112	-28
Release of tax accrual		0	149
Deferred tax income/(expense)		45	0
Total		-67	121

The following is a theoretical reconciliation of the income taxes calculated at the Group's expected effective income tax rate:

	in CHF thousands	2009	2008
Result before taxes		-25,856	-44,777
Tax income of applicable tax rate of 15.0% (Prior year: 15.0%) ¹⁾		3,878	6,717
Unrecognized deferred taxes on tax loss carry forwards		-3,811	-6,596
Effective tax expense/(income)		67	121
Effective tax rate		0.3%	-0.3%

1) The tax rate of 15% represents the Group's expected long-term tax rate based on rates applicable in those jurisdictions where taxable income should be generated in the future.

According to currently applicable Swiss tax law, the period to offset tax loss carry forwards against taxable profit is limited to seven years. According to currently applicable German tax law, tax loss carry forwards can, besides other conditions, be offset against taxable profit for an unlimited period but only to an amount of EUR 1.0 million and in addition for 60% of further amounts beyond this threshold per annum.

28 Earnings per Share

Basic earnings/loss per share is calculated by dividing the net profit/net loss attributable to equity holders by the weighted average number of shares issued and outstanding during the reporting period, excluding shares held as treasury shares.

	2009	2008
Net loss attributable to equity holders (in CHF)	-25,923,085	-44,655,983
Weighted average number of shares issued and outstanding	3,544,462	3,164,825
Basic and diluted loss per share (in CHF)	-7.31	-14.11

For the years ended December 31, 2009 and 2008, basic and diluted loss per share is based on the weighted average number of Shares issued and outstanding and excludes Shares to be issued upon the future exercise of employee stock options or warrants, as they would be anti-dilutive. In case Santhera shows a profit in the future, options may have a dilutive effect on the net profit per Share and will need to be considered for the purpose of this calculation.

29 Related Party Transactions

Board of Directors and Executive Management compensation

Total compensation of Board of Directors and Executive Management

	in CHF thousands	2009	2008
Short-term benefits: wages and salaries/board compensation		1,775	1,857
Post-employment benefits (pension fund contributions)		110	109
Other long-term benefits		0	0
Termination benefits		0	0
Termination benefits from share-based payment expenses ¹⁾		20	0
Share-based payment expenses (fair value according to IFRS 2) ¹⁾		664	857

1) Fair values consist of option grants and modifications of existing grants from 2008 and 2009, respectively, as well as option grants from earlier years whose vesting periods include the reporting periods. Employee stock options are expensed over their vesting periods in accordance with IFRS 2 and the fair values included in above table are comparable to the disclosed fair values of issued stock options as accounted for in the consolidated statement of changes in equity.

Executive Management compensation

	2009	2008
Wages and salaries (in CHF thousands)	1,489	1,573
Stock options (number)	56,000	12,000

In 2009 and 2008, the highest remuneration was paid to Klaus Schollmeier, Chief Executive Officer (CEO). In 2009, he received a gross monetary compensation of CHF 477,500 and 14,000 stock options. In 2008, he received a gross monetary compensation of CHF 534,375 and 12,000 stock options.

Board of Directors compensation

	2009	2008
Compensations (in CHF thousands)	286	284
Termination benefits (in CHF thousands)	0	0
Stock options (number)	15,000	4,000

In 2009 and 2008, the highest compensation to a member of the Board was paid to Michael Lytton, Chairman. In 2009, Mr Lytton received a payment of CHF 96,000 and 7,000 stock options; in 2008 he received a payment of CHF 96,000 and no stock options.

Transactions with members of the Board and Executive Management

There are no loans outstanding or guarantee commitments granted to members of the Board and Executive Management. Mr Rink renders independent advisory and consulting services to the Company and also serves as a member of the SAB. As remuneration, Mr Rink is entitled to a flat consulting fee of EUR 20,000 per year. This consultancy arrangement can be terminated by either party upon one month's prior written notice without cause.

Shareholdings of members of the Board and Executive Management

The total number of stock options held by the members of the Board amounted to 31,000 as of December 31, 2009 (20,774 stock options as of year-end 2008). By the end of 2009, the members of the Board held 2,030 Shares (1,630 Shares as of year-end 2008).

The total number of stock options held by the Executive Management amounted to 232,117 as of December 31, 2009 (207,515 stock options as of year-end 2008). As per December 31, 2009, the members of the Executive Management held 16,543 Shares (1,230 Shares as of year-end 2008).

The table below sets forth the number of stock options and Shares individually held or controlled by members of the Board and members of the Executive Management.

Name	Total number of shares	2009 Total number of stock options	Total number of shares	2009 Total number of stock options
Board of Directors				
Michael Lytton, Chairman	0	7,000	0	0
Hans Peter Hasler, Vice Chairman	0	6,000	0	4,000
Jürg Ambühl ¹⁾	800	0	0	0
Martin Gertsch	1,230	6,000	1,230	4,000
Rudolf Gyga ²⁾	0	0	400	4,774
Timothy Rink	0	6,000	0	4,000
Klaus Schollmeier		see below		
Bernd Seizinger	0	6,000	0	4,000
Executive Management				
Klaus Schollmeier, Chief Executive Officer	930	92,118	930	78,368
Barbara Heller, Chief Financial Officer	1,000	51,678	300	45,418
Helmut Kessmann, Chief Business Officer	0	36,282	0	32,077
Thomas Meier, Chief Scientific Officer	14,613	52,039	0	51,652

1) Board member since April 27, 2009

2) Board member until April 27, 2009

In 2009, 31,398 stock options were exercised by the members of the Executive Management (9,566 during 2008).

The tables below show the total number of options granted to the members of the Board in the three preceding years and the respective exercise prices:

Year of grant	Total number of options	Exercise prices in CHF
2006	14,000	59.44
2006	4,000	82.58
2007	0	0
2008	4,000	68.30
2009	8,000	44.45
2009	7,000	46.00

The tables below show the total number of stock options granted to the members of the Executive Management in the three preceding years and their respective exercise prices:

Year of grant	Total number of options	Exercise prices in CHF
2006	101,065	1.00
2007	18,000	1.00
2007	11,339	59.44
2008	12,000	77.50
2009	16,000	44.45
2009	40,000	28.20

The detailed disclosures regarding executive remuneration that are required by Swiss law are included in the notes to the financial statements of Santhera Pharmaceuticals Holding AG.

30 Risk Management Objectives and Policies

Santhera Pharmaceuticals Holding AG maintains a group-wide corporate risk management system consisting of the areas corporate governance, financial internal controls and quality control/quality assurance.

In a semi-annual bottom-up process operational corporate risks are identified and their likelihood and impact assessed (gross risks). Out of a pool of these identified risks, the Company defines corporate key risks. By defining and undertaking appropriate measures these corporate key risks are managed accordingly to either reduce or avoid such risk (net risk). The result of this process is a risk report which is assessed and approved by the Audit Committee (AC) on a semi-annual basis and by the Board on an annual basis. The corporate key risks are in addition assessed by the Executive Management at its regular meetings, additional key risks are being discussed and measures identified if needed on an ongoing basis.

Those risks as identified within the area of accounting and financial reporting as well as related control processes are further covered by the Company's Group-wide internal control system.

Santhera conducts R&D activities primarily in Switzerland, the EU and the US and is exposed to a variety of financial risks, such as foreign exchange rate risk, credit risk, liquidity risk, cash flow and interest rate risk. Part of Santhera's overall risk management focuses on financial risks and the unpredictability of financial markets seeking to minimize potential adverse effects on the financial performance of the Group. Special guidelines and policies approved by the Board exist for overall risk management, financial internal controls and treasury management and are monitored by the Executive Management and the AC of the Board on a regular basis. The risk of foreign exchange rate fluctuations on the expenses is partly managed by entering into foreign exchange derivative contracts. In accordance with the relevant treasury guidelines, Santhera only concludes contracts with selected high-quality financial institutions of good reputation and is not allowed to engage in speculative transactions. In addition, Santhera's treasury guidelines currently limit the Company to engage in money-market deposits or similar instruments with a maturity beyond 12 months.

Foreign exchange rate risk

Santhera holds cash amounts in all three major currencies CHF, USD and EUR to cover the majority of future expected expenses. In addition, in order to reduce its foreign exchange rate exposure, Santhera entered into derivative currency contracts (forwards, options, structured derivatives) to hedge against additional major foreign currency exchange rate fluctuations. Evaluations based on market values were performed regularly. Any fair value changes of such currency positions are recorded accordingly in the income statement. Santhera's primary exposure to financial risk is due to fluctuation of exchange rates between CHF, EUR and USD.

Future expected purchases in USD and EUR should be covered till end of 2010 by cash and cash equivalents held in these currencies. No derivative currency contracts are outstanding as per December 31, 2009.

The following table demonstrates the sensitivity to a reasonable possible change in USD, EUR and CAD exchange rate, with all other variables held constant, of Santhera's result before taxes and Santhera's equity:

	Increase/decrease foreign currency rate	Effect on result before taxes in CHF thousands	Effect on equity in CHF thousands
USD positions			
2009	+15%	2,069	0
	-5%	-690	0
2008	+15%	1,531	0
	-10%	-1,021	0
EUR positions			
2009	+5%	761	0
	-5%	-761	0
2008	+10%	1,512	0
	-5%	-756	0
CAD positions			
2009	+5%	51	0
	-15%	-152	0
2008	+30%	-82	0
	-5%	14	0

Interest rate risk

Santhera earns interest income on cash and cash equivalents and its profit and loss may be influenced by changes in market interest rates. Santhera is either holding its cash on deposit/current accounts or investing cash through money market instruments in line with its treasury guidelines to follow its financial needs over time.

The following table demonstrates the sensitivity to a reasonable change in interest rates, with all other variables held constant, of the Group's result before taxes. There is no impact on the Group's equity.

	Increase/decrease in basis points	Effect on result before taxes in CHF thousands
2009		
CHF	+100	205
CHF	-100	-205
EUR	+100	176
EUR	-100	-176
USD	+150	220
USD	-150	-220
CAD	+150	8
CAD	-150	-8
2008		
CHF	+100	519
CHF	-100	-519
EUR	+100	163
EUR	-100	-163
USD	+150	99
USD	-150	-99
CAD	+150	3
CAD	-150	-3

Credit risk

Santhera has a certain concentration of credit risk. Short-term investments are invested as cash on deposit or in risk free money market funds, i.e. money market accounts with government-backed corporate banks, top tier categorized banks or S&P A-1 rated money market investment instruments or similar ratings. No investment or contract with any single counterparty, except cash on deposit subject to the criteria above, comprises more than 20% of cash and cash equivalents at the date of investment.

Santhera has policies in place to ensure that sales of products or partnerships are made to customers or with partners with an appropriate credit history and a commitment to ethical business practices. The maximum credit risk exposure is limited to the carrying amount of its financial assets including derivatives.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Currently the Company is financed through equity and there is no funding through debt instruments, other than one finance lease. Santhera's treasury calculates on a rolling basis the needs for aligning the current expenses against the need for optimized financial investments.

Contractual undiscounted cash flows

Year ended December 31, 2009 in CHF thousands	On demand	Less than 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	Book value
Long- and short-term debt	0	41	121	648	3,995	4,805	2,304
Trade payables	0	3,295	0	0	0	3,295	3,295
Subtotal	0	3,336	121	648	3,995	8,100	5,599
Foreign currency derivatives							
Cash outflow	0	0	0	0	0	0	0
Cash inflow	0	0	0	0	0	0	0
Subtotal	0	0	0	0	0	0	0
Total	0	3,336	121	648	3,995	8,100	5,599

Contractual undiscounted cash flows

Year ended December 31, 2008 in CHF thousands	On demand	Less than 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	Book value
Long- and short-term debt	0	0	0	0	0	0	0
Trade payables	0	1,686	0	0	0	1,686	1,686
Subtotal	0	1,686	0	0	0	1,686	1,686
Foreign currency derivatives							
Cash outflow	0	2,806	2,245	0	0	5,051	0
Cash inflow	0	-2,640	-2,112	0	0	-4,752	0
Subtotal	0	166	133	0	0	299	256
Total	0	1,852	133	0	0	1,985	1,942

Categories of financial instruments

Year ended December 31, 2009, in CHF thousands	Book value	Loans and receivables	Financial assets at FVtPL ¹⁾	Other liabilities at amortized cost	Financial liabilities at FVtPL ¹⁾
Assets					
Financial assets long-term	10	10	0	0	0
Financial assets short-term	0	0	0	0	0
Trade receivables	326	326	0	0	0
Other receivables	0	0	0	0	0
Cash and cash equivalents	53,320	53,320	0	0	0
Total	53,656	53,656	0	0	0
Liabilities					
Long- and short-term debt	0	0	0	0	0
Financial liabilities long-term	2,273	0	0	2,273	0
Trade payables	3,295	0	0	3,295	0
Financial liabilities short-term	31	0	0	31	0
Total	5,599	0	0	5,599	0

1) Fair value through profit and loss

Year ended December 31, 2008, in CHF thousands	Book value	Loans and receivables	Financial assets at FVTPL ¹⁾	Other liabilities at amortized cost	Financial liabilities at FVTPL ¹⁾
Assets					
Financial assets long-term	10	10	0	0	0
Financial assets short-term	0	0	0	0	0
Trade receivables	43	43	0	0	0
Other receivables	0	0	0	0	0
Cash and cash equivalents	75,006	75,006	0	0	0
Total	75,059	75,059	0	0	0
Liabilities					
Long- and short-term debt	0	0	0	0	0
Financial liabilities long-term	0	0	0	0	0
Trade payables	1,686	0	0	1,686	0
Financial liabilities short-term	256	0	0	0	256
Total	1,942	0	0	1,686	256

1) Fair value through profit and loss.

The fair values of all financial instruments approximate their carrying amounts.

Capital Management

First priority of Santhera's capital management is to provide adequate cash funds to ensure the financing of successful research, development and marketing activities so that future profits can be generated by gaining marketing authorization approvals for pharmaceutical products. As a company with currently one product on a smaller market, the capital management continues to be focused on the cash and cash equivalents position and is governed by specific Group treasury guidelines.

The available funds rose in various private financing rounds, the initial public offering in 2006, the private placement in 2008 as well as the funds generated through revenues/milestones ensure that the Group continues as a going concern.

No changes in goals and policies of our treasury management during the past two reporting years have been made.

31 Effects from Restructuring

In July 2009, Santhera announced the restructuring of its drug discovery operations, reducing headcount by 26 employees. Expenses from this restructuring amounted to CHF 0.8 million and were charged equally by function to R&D and G&A in the amount of CHF 0.4 million each. By nature, the personnel related restructuring expenses amounted to CHF 0.1 million, the facility related expenses to CHF 0.4 million and CHF 0.3 million resulted from related impairments of equipment. Information on total operating expenses by function and by nature can be found in notes 23 "*Operating Expenses by Function*" and 24 "*Operating Expenses by Nature*". From the total restructuring expenses of CHF 0.8 million, CHF 0.6 million were non-cash relevant in 2009.

32 Events after the Balance-Sheet Date

On February 16, 2010, Santhera Pharmaceuticals Holding AG received 8,028 treasury Shares from the vendors of Juvantia. Such transfer of Shares was in connection with the acquisition of Juvantia and intends to cover the part of the maximum potential tax liability of Juvantia which is attributable to the Vendors in connection with the respective agreements. In case no such tax liability will finally become payable, Santhera has the right to either transfer back the same Shares or pay back the respective amount in cash to the vendors of Juvantia.



Report of the statutory auditor on the consolidated financial statements

Basel, 25 February 2010

As statutory auditor, we have audited the accompanying consolidated financial statements of Santhera Pharmaceuticals Holding AG, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes, pages F-2 to F-41 for the year ended 31 December 2009.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the requirements of Swiss law and the consolidation and valuation principles as set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2009 comply with Swiss law and the consolidation and valuation principles as set out in the notes.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Without qualifying our opinion, we refer to note 7, which describes material uncertainties regarding the valuation of the related intangible assets, which is characteristic for a biotech company at this stage of development.

Ernst & Young Ltd

Jürg Zürcher
Licensed audit expert
(Auditor in charge)

David Haldimann
Licensed audit expert

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Balance Sheet

	as of December 31, in CHF thousands	
	2009	2008
Assets		
Tangible assets	6	15
Intangible assets	54	88
Investments in group companies	1,180	1,191
Loans to group companies	124,917	96,345
Noncurrent assets	126,157	97,639
Prepaid expenses and accrued income	109	238
Other receivables from Group companies	135	559
Other receivables from third parties	181	469
Cash and cash equivalents	48,158	71,333
Current assets	48,583	72,599
Total assets	174,740	170,238
Equity and liabilities		
Share capital	3,654	3,514
Capital reserves and share premium	17,332	17,332
Free reserves	148,419	148,393
Accumulated profit	2,796	26
– Profit carried forward	0	0
– Net profit for the period	2,796	26
Total equity	172,201	169,265
Trade accounts payable from group companies	1,434	59
Trade accounts payable from third parties	431	313
Other accounts payable from third parties	128	108
Accrued expenses	546	493
Total current liabilities	2,539	973
Total liabilities	2,539	973
Total equity and liabilities	174,740	170,238

Income Statement

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	for the year ended December 31, in CHF thousands	
	2009	2008
Revenue from group companies	4,304	3,276
Total operating income	4,304	3,276
Other operating income	40	0
General and administrative expenses	-4,262	-3,652
Employee costs	-2,036	-2,132
Depreciation and amortization	-43	-44
Allowance on investments	-15	84
Total operating expenses	-6,356	-5,744
Operating result	-2,012	-2,468
Financial income	10,810	12,672
Financial expenses	-6,002	-10,178
Financial result	4,808	2,494
Result before taxes	2,796	26
Income tax expenses	0	0
Net profit	2,796	26

Introduction

The financial statements of Santhera Pharmaceuticals Holding AG (**Company**) have been prepared in accordance with the requirements of the Swiss Code of Obligations.

Investments/Subsidiaries

	Share capital at December 31	2009	2008
Santhera Pharmaceuticals (Deutschland) GmbH			
Lörrach, Germany	EUR	668,930	668,930
Santhera Pharmaceuticals (Schweiz) AG			
Liestal, Switzerland	CHF	125,000	125,000
Santhera Pharmaceuticals (USA), Inc.			
Charlestown, US	USD	1,000	1,000
Santhera Pharmaceuticals (Canada), Inc.			
Montréal, Canada	CAD	1,000	1,000
Oy Santhera Pharmaceuticals (Finland) Ltd (formerly Leucoson Oy)			
Helsinki, Finland	EUR	2,500	0

All companies are 100% direct subsidiaries of Santhera Pharmaceuticals Holding AG.

Guarantee

Swiss VAT authorities

The Company is part of the value-added tax group of the Swiss affiliated companies of Santhera Pharmaceuticals and is therefore jointly and severally liable to the Swiss federal tax administration for their value-added tax liabilities.

Share Capital

During 2009, the share capital was increased by the total amount of CHF 140,320 to an amount of CHF 3,654,219 as of December 31, 2009 (CHF 3,513,899 as of year-end 2008) through the exercise of employee stock options (using conditional share capital) and one capital increase against a contribution in kind (using authorized share capital).

Authorized Share Capital

The Board of Directors (**Board**) is authorized, at any time until April 20, 2010, to increase the share capital in an amount not to exceed CHF 323,945 through the issuance of up to 323,945 fully paid in registered shares (**Shares**) with a nominal value of CHF 1.00 each. An increase in partial amounts shall be permitted. The Board shall determine the issue price, the type of payment, the date of issue of new Shares, the conditions for the exercise of pre-emptive rights and the beginning date for dividend entitlement.

Conditional Share Capital

As of December 31, 2009, the Company had a conditional capital, pursuant to which the share capital of the Company may be increased by:

- (i) a maximum amount of CHF 650,515 by issuing a maximum of up to 650,515 Shares, under the exclusion of shareholders' pre-emptive rights, for option rights being exercised under the Employee Stock Option Plan (**ESOP 2004**), the Executive Incentive Plan (**EIP**) and the Employee Stock Option Plan 2008 (**ESOP 2008**), whereas 175,000 Shares may not be issued at an exercise price below CHF 90 and
- (ii) a maximum amount of CHF 490,182 by issuing up to 490,182 Shares, through the exercise of warrants/options and/or notes granted in connection with bonds or similar debt instruments linked with option and/or conversion rights granted by the Company

Risk Assessment

Santhera Pharmaceuticals Holding AG, together with its subsidiaries (**Group**), maintains a Group-wide corporate risk management system consisting of the areas corporate governance, financial internal controls and quality control/quality assurance.

In a semi-annual bottom-up process operational corporate risks are identified and their likelihood and impact assessed (gross risks). Out of a pool of these identified risks, the Company defines corporate key risks. By defining and undertaking appropriate measures these corporate key risks are managed accordingly to either reduce or avoid such risk (net risk). The result of this process is a risk report which is assessed and approved by the Audit Committee on a semi-annual basis and by the Board on an annual basis. The corporate key risks are in addition assessed by the Executive Management and the members of the Management Team at its regular meetings, additional key risks are being discussed and measures identified if needed on an ongoing basis.

Those risks as identified within the area of accounting and financial reporting as well as related control processes are further covered by the Company's group-wide internal control system.

Treasury Shares

No treasury shares were held during the reporting period.

Additional Information

	in CHF thousands	2009	2008
Lease commitments not recorded in the balance sheet			
– Operational lease		3	8
Property insurance value of buildings and equipment			
– Equipment and furniture		250	250
Liabilities to pension funds/social insurance		5	5
Restricted cash		40	0
Subordinated loans to group companies		124,211	96,157

Subordinated loans to group companies consist mainly of loans to Santhera Pharmaceuticals (Schweiz) AG. As of December 31, 2009, the financial statements of this company disclose an over-indebtedness of CHF 120,720,929. The recoverability of the loans from Santhera Pharmaceuticals Holding AG is ensured by the fair value of its subsidiary, whose accounts are kept on a going-concern basis. The fair value of Santhera Pharmaceuticals (Schweiz) AG depends on the future market success of the developed products. Even though the development of these products has shown very positive progress, an uncertainty remains as to whether a successful market launch of the products in development can be achieved.

Capital loans from Finnish Funding Agency for Technology and Capital loans from Finnish National Fund for Research and Development

In July 2009 Santhera exercised its option to acquire Oy Juvantia Pharma, Turku, Finland (**Juvantia**). Upon closing of the acquisition, the titles of the capital loans granted to Juvantia by the Finnish Funding Agency for Technology and Innovation, Helsinki, Finland (**Tekes**), and the Finnish National Fund for Research and Development SITRA, Helsinki, Finland (**Sitra**), were transferred to Oy Santhera Pharmaceuticals (Finland) Ltd, Helsinki, Finland. As per December 31, 2009, the loans amounted to EUR 6,399,534 (EUR 5,663,769 as of December 31, 2008) including capitalized interest.

Capital loans from Tekes

The loans from Tekes were granted in order to develop new medicines for movement disorders in Parkinson disease and thus the compound fipamezole. Once a first marketing approval for fipamezole in a major country is received, EUR 2.4 million plus accrued interests will be due. Another EUR 2.4 million plus accrued interests will be due one year after the first marketing authorization.

Capital loans from Sitra

The loans from Sitra were granted in order to develop new medicines for movement disorders in Parkinson disease and thus the compound fipamezole. Once a first marketing approval for fipamezole in a major country is received before December 31, 2014, EUR 0.2 million will be due. Another EUR 0.2 million will be due one year after the first marketing authorization.

In case of receiving marketing authorization for fipamezole and as a consequence, these loans becoming due, the Company guarantees these amounts for repayment towards Tekes and Sitra as described above. Should no marketing authorization be granted, no payments will be due under these capital loans.

In connection with the acquisition and liquidation of Juvantia the Company further guarantees EUR 250,000 towards the local tax authority of Turku, Finland, reflecting the maximal total tax liability.

In August 2009, Santhera Pharmaceuticals (Schweiz) AG entered into a collaboration and license agreement with Biovail Laboratories International SRL, Montréal, Canada (**Biovail**). Biovail will be responsible for the remaining clinical development programs and costs in the United States of America and Canada. In context with this above transaction, Santhera Pharmaceuticals Holding AG guarantees an amount of up to USD 30.0 million towards Biovail for obligations of Santhera Pharmaceuticals (Schweiz) AG under the collaboration and license agreement.

Significant Shareholders (>3%)

Pursuant to information from the Company's share register and disclosures of participations made to it with applicable stock exchange regulation, the following shareholders owned 3% or more of the Company's share capital at December 31:

Shareholder's name	Shares	2009 %	Shares	2008 %
Ares Life Sciences, Switzerland	545,777	15.1	370,082	10.5
NGN Capital, Germany and US	385,102	10.6	385,102	11.0
Excalibur Biosciences / Merlin Biosciences, UK	239,592	6.6	239,592	6.8
Oxbio Bioscience Partners, US	220,090	6.1	220,090	6.3
Oppenheimer Funds, US	162,045	4.5	134,519	3.8
GIMV, Belgium	156,192	4.3	156,192	4.4
Varuma, Switzerland	146,932	4.1	146,932	4.2
Heidelberg Innovation Fonds, Germany	125,985	3.5	125,985	3.6
3i Group, UK	n/a	>3.0	200,050	5.7
Allianz Global Investors / Cominvest Asset Management, Germany	n/a	>3.0	130,391	3.7
Carnegie Funds, Sweden	n/a	>3.0	118,873	3.4
Schroders, Switzerland and UK	n/a	>3.0	109,492	3.1

* As of February 3, 2009, Schroders reduced its holding to below 3%.

Compensations to the Board and the Executive Management

Disclosure of compensation of members of the Board for the year 2009

	in CHF	Cash compen- sation fix	Social security	Stock options ²⁾	Compen- sation total
Michael Lytton, Chairman		96,000	7,745	178,640	282,385
Hans Peter Hasler, Vice Chairman		32,000	2,581	45,420	80,001
Jürg Ambühl		23,333	1,882	0	25,215
Martin Gertsch		45,000	3,630	45,420	94,050
Rudolf Gygax		10,667	861	20,065	31,592
Timothy Rink		45,103	3,638	45,420	94,162
Klaus Schollmeier ¹⁾			see below		
Bernd Seizinger		34,061	2,748	45,420	82,229
Total		284,164	23,085	380,385	689,634

1) Klaus Schollmeier received no compensation for him being a member of the Board. All his compensations were paid for his function as Chief Executive Officer (CEO) and as a consequence are disclosed as compensation of members of the Executive Management.

2) Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 0 until stock options are exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into considerations certain vesting provisions. For information about the underlying stock option plans see note 19 "Stock Option Plans" on page F-26 in the consolidated financial statements. For information about the Company's compensation procedures consult the Corporate Governance Report on page CG-12.

Option grants to five Board members were made in 2009. Besides this, no other payments, allowances or loans were made to the members of the Board in 2009.

Disclosure of compensation of members of the Executive Management for the year 2009

	Cash compen- sation fix CHF	Cash compen- sation variable CHF	Car leasing CHF	Social security CHF	Stock options ¹⁾ CHF	Total CHF	Stock options granted number
CEO	437,500	40,000	7,263	73,774	243,320	801,857	14,000
Other members of the Executive Management	921,450	90,000	0	166,587	815,240	1,993,277	42,000
Total	1,358,950	130,000	7,263	240,361	1,058,560	2,795,134	56,000

1) Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 0 until stock options are exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into considerations certain vesting provisions. For information about the underlying stock option plans see note "Stock Option Plans" in the consolidated financial statements. For information about the Company's compensation procedures consult the Corporate Governance Report.

Disclosure of compensation of members of the Board for the year 2008

	in CHF	Cash compen- sation fix	Social security	Stock options ³⁾	Compen- sation total
Michael Lytton, Chairman		96,000	7,721	0	103,721
Hans Peter Hasler, Vice Chairman		32,000	2,573	0	34,573
Martin Gertsch		45,000	3,619	0	48,619
Rudolf Gygax		32,000	1,939	73,040	106,979
Timothy Rink		45,103	3,627	0	48,730
Klaus Schollmeier ¹⁾		see below			
Bernd Seizinger		34,061	2,739	0	36,800
Total		284,164	22,217	73,040	379,422

1) Klaus Schollmeier received no compensation for him being a member of the Board. All his compensations were paid for his function as CEO and as a consequence are disclosed as compensation of members of the Executive Management.

2) Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 0 until stock options are exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into considerations certain vesting provisions. For information about the underlying stock option plans, see note "Stock Option Plans" in the consolidated financial statements. For information about the Company's compensation procedures consult the Corporate Governance Report.

One option grant to one Board member was made in 2008. Besides this, no other payments, allowances or loans were made to the members of the Board in 2008.

Disclosure of compensation of members of the Executive Management for the year 2008

	Cash compen- sation fix CHF	Cash compen- sation variable CHF	Car leasing CHF	Social security CHF	Stock options ¹⁾ CHF	Total CHF	Stock options granted number
CEO	437,500	96,875	7,263	79,480	446,400	1,067,518	12,000
Other members of the Executive Management	921,449	117,000	0	177,935	0	1,216,384	0
Total	1,358,949	213,875	7,263	257,415	446,400	2,283,902	12,000

1) Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 0 until stock options are exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into considerations certain vesting provisions. For information about the underlying stock option plans, see note 19 "Stock Option Plans" on page F-26 in the consolidated financial statements. For information about the Company's compensation procedures consult the Corporate Governance Report on page CG-12.

Disclosure of Shares and stock options held by members of the Board and Executive Management (and their respective related party) as of December 31, 2009

Name	Number of Shares	Number of vested stock options	Number of unvested stock options	Total number of stock options
Board of Directors				
Michael Lytton, Chairman	0	0	7,000	7,000
Hans Peter Hasler, Vice Chairman	0	3,000	3,000	6,000
Jürg Ambühl	800	0	0	0
Martin Gertsch	1,230	3,000	3,000	6,000
Timothy Rink	0	4,000	2,000	6,000
Klaus Schollmeier	see below			
Bernd Seizinger	0	4,000	2,000	6,000
Executive Management				
Klaus Schollmeier, Chief Executive Officer (CEO)	930	66,118	26,000	92,118
Barbara Heller, Chief Financial Officer (CFO)	1,000	34,008	17,670	51,678
Helmut Kessmann, Chief Business Officer (CBO)	0	21,282	15,000	36,282
Thomas Meier, Chief Scientific Officer (CSO)	14,613	37,039	15,000	52,039

No other payments, allowances or loans were made to neither the members of the Board, members of the Executive Management or related parties in 2009.

Disclosure of Shares and stock options held by members of the Board and Executive Management (and their respective related party) as of December 31, 2008

Name	Number of Shares	Number of vested stock options	Number of unvested stock options	Total number of stock options
Board of Directors				
Michael Lytton, Chairman	0	0	0	0
Hans Peter Hasler, Vice Chairman	0	2,000	2,000	4,000
Martin Gertsch	1,230	2,000	2,000	4,000
Rudolf Gyax	400	774	4,000	4,774
Timothy Rink	0	4,000	0	4,000
Klaus Schollmeier	see below			
Bernd Seizinger	0	4,000	0	4,000
Executive Management				
Klaus Schollmeier, CEO	930	66,368	12,000	78,368
Barbara Heller, CFO	300	31,244	14,174	45,418
Helmut Kessmann, CBO	0	32,077	0	32,077
Thomas Meier, CSO	0	47,152	4,500	51,652

No other payments, allowances or loans were made to neither the members of the Board, members of the Executive Management or related parties in 2008.

Events after the Balance-Sheet Date

On February 16, 2010, Santhera Pharmaceuticals Holding AG received 8,028 treasury Shares from the vendors of Juvantia. Such transfer of Shares was in connection with the acquisition of Juvantia and intends to cover the part of the maximum potential tax liability of Juvantia which is attributable to the Vendors in connection with the respective agreements. In case no such tax liability will finally become payable, Santhera has the right to either transfer back the same Shares or pay back the respective amount in cash to the vendors of Juvantia.

Proposals of the Board of Directors to the Annual Shareholders' Meeting

Proposal of the Board for the Appropriation of Available Earnings, Subject to the Approval of the Annual Shareholders' Meeting:

	in CHF	2009	2008
Profit carried forward		0	0
Net profit of the year		2,796,417	25,842
Accumulated profit		2,796,417	25,842
Appropriation to free reserves		2,796,417	25,842
Profit to be carried forward		0	0

The Board of Directors Requests the Approval of the Annual Shareholders' Meeting for the Following Release and Transfer from Capital Reserves and Share Premium:

	in CHF
Capital reserves and share premium at December 31, 2009	17,332,073
Transfer from capital reserves and share premium to free reserves	-15,500,000
Net capital reserves and share premium	1,832,073

No further appropriations to the legal reserves are necessary which already amount to the required 20% of the share capital.

Subject to Approval by the Annual Shareholders' Meeting, the Free Reserves Develop as Follows:

	in CHF
Free reserves at December 31, 2009	148,418,397
Appropriation of the profit for the period to free reserves	2,796,417
Transfer from capital reserves and share premium to free reserves	15,500,000
Free reserves	166,714,814



Report of the statutory auditor on the financial statements

Basel, 25 February 2010

As statutory auditor, we have audited the accompanying financial statements of Santhera Pharmaceuticals Holding AG, which comprise the balance sheet, income statement and notes, pages F-46 to F-54, for the year ended 31 December 2009.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2009 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Without qualifying our opinion, we refer to the additional information in the notes according to which loans to an over-indebted subsidiary have been assessed as recoverable by the Management and the Board of Directors based on the business plans and expected future cash flows. Even though the development of the products has shown favourable trend, a material uncertainty remains as to whether successful market launch of the products in development will attain the expected results.

Ernst & Young Ltd

Jürg Zürcher
Licensed audit expert
(Auditor in charge)

David Haldimann
Licensed audit expert

Forward-looking Statements

This Annual Report is not and under no circumstances to be construed as a solicitation, offer or recommendation to buy or sell securities issued by Santhera Pharmaceuticals Holding AG. Santhera Pharmaceuticals Holding AG makes no representation (either express or implied) that the information and opinions expressed in this Annual Report are accurate, complete or up to date. Santhera Pharmaceuticals Holding AG disclaims, without limitation, all liability for any loss or damage of any kind, including any direct, indirect or consequential damages, which might be incurred in connection with the information contained in this Annual Report.

This Annual Report expressly or implicitly contains certain forward-looking statements concerning Santhera Pharmaceuticals Holding AG and its business. Certain of these forward-looking statements can be identified by the use of forward-looking terminology such as "believe", "expect", "may", "are expected to", "will", "will continue", "should", "would be", "seek" or "anticipate" or by discussions of strategy, plans or intentions. Such statements involve certain known and unknown risks, uncertainties and other factors, which could cause the actual results, financial condition, performance or achievements of Santhera Pharmaceuticals Holding AG to be materially different from any expected results, performance or achievements expressed or implied by such forward-looking statements. There can be no guarantee that any of the research and/or development projects described will succeed or that any new products or indications will be brought to market. Similarly, there can be no guarantee that Santhera Pharmaceuticals Holding AG or any future product or indication will achieve any particular level of revenue. In particular, management's expectations could be affected by, among other things, uncertainties involved in the development of new pharmaceutical products, including unexpected preclinical and clinical trial results; unexpected regulatory actions or delays or government regulation generally; the ability of Santhera Pharmaceuticals Holding AG to obtain or maintain patent or other proprietary intellectual property protection; competition in general; government, industry and general public pricing and other political pressures. Santhera Pharmaceuticals Holding AG is providing the information in this Annual Report as of the date of the publication, and does not undertake any obligation to update any forward-looking statements contained herein as a result of new information, future events or otherwise.

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